ADVISORY NEIGHBORHOOD COMMISSION 4B
6856 Eastern Avenue, N.W., Suite 314
Washington, DC 20012

July 4, 2010

Mr. Harold B. Pettigrew, Jr.
Administrator
D.C. Department of Consumer and Regulatory Affairs
Business and Professional Licensing Administration
1100 4th Street, S.W., Suite E460
Washington, DC 20024

Re: Advisory Neighborhood Commission 4B ("ANC 4B")
Recommendations Concerning Pawnbroker License
Application Submitted by Famous Pawn, Inc.

Dear Mr.Pettigrew:

The D.C. Department of Consumer and Regulatory Affairs has notified us by letter dated May 28, 2010 that it received a pawnbroker license application on May 25, 2010 for the property located at 7301 Georgia Avenue, N.W. See Exhibit A attached hereto. The applicant for the pawnbroker license is Famous Pawn, Inc. t/a 1st Cash Pawn ("Famous Pawn"). See Exhibit A attached hereto.

This letter is to submit to you our concerns and recommendations regarding Famous Pawn's application. Our recommendations are being submitted to you pursuant to the provisions of the Predatory Pawnbroker Regulation and Community Notification Temporary Act of 2010 ("the Act").

STANDING OF ANC 4B

In order for an Advisory Neighborhood Commission ("ANC") to have standing to submit to you concerns and recommendations regarding an application for a pawnbroker license, the ANC must be an affected ANC. See the Act. ANC 4B is an affected ANC here because the location of the pawnshop for which Famous Pawn has applied for a pawnbroker license (7301 Georgia Avenue, N.W.) is situated within the jurisdictional boundaries of ANC 4B. See Georgetown Residents Alliance v. District of Columbia Board of Zoning Adjustment, 816 A.2d 41, 51 (D.C.App. 2003) where the Court of Appeals stated: "Although the two ANCs that submitted recommendations may have an

Georgetown University itself is within or adjacent to the areas of either of those two ANCs." (Emphasis added.)

GROUNDS FOR RECOMMENDATIONS

We will state the grounds for our recommendations by addressing in detail the two findings the Mayor is required to make after conducting an investigation and before issuing or refusing to issue a pawnbroker license. See D.C. Official Code § 47-2884.05(a), as amended by the Act. The two findings the Commissioner is required to make are:

1. "that the…character of such applicant…"[is] such as to command the confidence of the community" and

2. "that permitting such applicant to engage in such business will promote the convenience and advantage of the community".

(Emphasis added.)

Finding 1: "That the…Character Of Such Applicant…"[is] Such as to Command the Confidence of the Community"

The key terms used in the statement of the first required finding are "character" and "confidence".

"Character" refers to "the aggregate of features and traits that form the individual nature of some person or thing". See Random House Webster Unabridged Dictionary. "Character" refers "especially to moral qualities, ethical standards, principles, and the like". See Random House Webster Unabridged Dictionary.

"Confidence" refers to "full trust, belief in the… trustworthiness, or reliability of a person". See Random House Webster Unabridged Dictionary.

We note the following with respect to the first required finding:

1. Famous Pawn commenced and continued for sometime renovating the premises at 7301 Georgia Avenue, N.W. under a cloak of concealment, i.e., without notifying the community of their intentions to locate a pawnshop there. See the statement of ANC Commissioner Sara Green at 2, attached hereto as Exhibit B.

2. Famous Pawn, on being asked on two occasions by ANC 4B01 Commissioner Sara Green to attend a scheduled ANC 4B meeting, rejected her requests out of hand stating, among other things, that "a meeting with the community is not necessary" and that it "does not meet with community groups". See the statement of ANC 4B01 Commissioner Sara Green at 1 and 2, attached hereto

as Exhibit B.

3. While First Cash attended ANC 4A's community meeting on April 29, 2010, it did not do so on principle but only because of the initial passage of the Act (April 20, 2010) and the issuance of the Temporary Restraining Order signed by Senior Judge Robert S. Tignor of the D.C. Superior Court on April 13, 2010, ordering, among other things, " that the Defendant [District of Columbia government] shall timely notify ANC 4A and ANC 4B... of any future application submitted to it by or on behalf of Famous Pawn, Inc. for a permit or license to establish and operate a pawnshop at 7301 Georgia Avenue..." See Exhibit D, attached hereto.

4. The necessary permits to renovate and occupy the proposed pawnshop site were applied for and issued in Famous Pawn's name. However, the artist's rendition of what the proposed pawnshop would look like that was provided at a meeting on May 21, 2010 between First Cash's attorney (Roderick Woodson, Esq.) and community representatives sets forth "First Cash" as the name of the pawnshop. See Exhibit C, attached hereto.

5. It has been reported in the Washington City Paper that Famous Pawn's parent company (First Cash Financial Services) "has made some strategic investments in this year's political races..." See Exhibit J, attached hereto. The investments concern contributions totaling at least $8,000 that were made to D.C. councilmembers within "the ten days after a June 2 hearing on Councilmember Muriel Bowser's proposed [pawnbroker] bill." The name of each councilmember and the amount that was contributed to the councilmember is noted in the news article.

   While First Cash's contributions may not technically overstep the District's campaign finance law, we think that they nonetheless raise a significant ethical question inasmuch as they appear to violate the spirit of the law. We therefore think that First Cash's contributions to the councilmembers should be viewed in a negative light when reaching your determination regarding Famous Pawn's character.

Looking together at all of the contacts, communications and circumstances noted above involving Famous Pawn, we submit that Famous Pawn has been clandestine, uncooperative, untrustworthy and unethical in its dealings with our community and its leaders. We, therefore, respectfully recommend that you find that the applicant Famous Pawn's character is *not* such as to command the confidence of the community within the meaning of D.C. Official Code § 47-2884.05(a), as amended by the Act.

Finding 2: "that Permitting Such Applicant to Engage in Such Business Will Promote the Convenience and Advantage of the Community"

There are three key terms used in the statement of the second required finding. They are "promote", "convenience" and "advantage".

"Promote" means "to help or encourage to exist or flourish". See Random House Webster Unabridged Dictionary.

"Convenience" means that which is "suitable to the needs or purpose; well-suited". See Random House Webster Unabridged Dictionary.

"Advantage" means "any state, circumstance, opportunity, or means specially favorable to success, interest or any desired end". See Random House Webster Unabridged Dictionary. Stated differently "advantage" is anything that places one in an improved condition". See Random House Webster Unabridged Dictionary.

The Applicant Expressly Stated It Does Not Intend to Principally Service the Nearby Community

The Applicant Famous Pawn and its parent company (First Cash) have clearly stated on two occasions that the target market for the pawnshop it wishes to locate at 7301 Georgia Avenue, N.W. is persons living in nearby Maryland and Virginia and all of Washington, DC. The first meeting with Famous Pawn took place on March 25, 2010 in Councilmember Muriel Bowser's office. In attendance at the meeting were Councilmember Bowser, Chris Lee, Vice-President, First Cash, other representatives of Famous Pawn and representatives of the community-- Andre Carley, Samuel S. Sharpe, Esq. and ANC Commissioner 4B01 Sara Green. The second meeting took place on May 21, 2010. In attendance at that meeting were Mr. Rod Woodson, Esq., attorney for Famous Pawn and 1st Cash and representatives of the community-- ANC Commissioner 4B01 Sara Green, Samuel S. Sharpe, Esq., Kelly Shuy, Andre Carley and ANC Commissioner 4A02 Dwayne Toliver. See the statement of ANC Commissioner 4B01 Sara Green at 3, attached hereto as Exhibit B and the statement of Andre R. Carley at 2 and 5, attached hereto as Exhibit E.

In other words, Famous Pawn and First Cash have expressed a manifest intention that the principal purpose of locating the proposed pawnshop at 7301 Georgia Avenue, N.W. is not to service or benefit the nearby community but to serve as a destination store for potential customers living in parts of Maryland and Virginia and the entire District of Columbia. See the statement of ANC Commissioner Sara Green at 3, attached hereto as Exhibit B, and the statement of Andre R. Carley at 2 and 5, attached hereto as Exhibit E.

We submit that the expressed statements alone of Famous Pawn and First Cash regarding the intended purpose of the proposed pawnshop dictate or call for a finding by the Commissioner that the proposed pawnshop will *not* promote the convenience and advantage of the community within the meaning of D.C. Official Code § 47-2884.05(a), as amended by the Act.

Even Assuming that Famous Pawn and First Cash Intended for the Proposed Pawnshop to Primarily Service the Nearby Community, the Proposed Pawnshop Would Not Provide a Suitable, Needed or Beneficial Service to the Community for a Variety of Reasons

The Socioeconomics of the Community Show That the Proposed Pawnshop is not a Suitable, Useful or Needed for the Community

Pawnshops, like payday lenders and other fringe banking lenders (e.g., check cashers and rent-to-own stores) are more suited to "low-income families" and persons living in "distressed communities" in the United States." See "Does Fringe Banking Exacerbate Crime Rates? Social Disorganization and the Ecology of Payday Lending," March 22, 2010 by Dr. Charis Kubrin, George Washington University, and others at 4, 5 and 6, attached hereto as Exhibit F.

Shepherd Park and Takoma, the two communities neighboring the proposed pawnshop site, are not low-income or distressed communities (i.e., communities with median household incomes of $30,000 or less) as the median income for the households in these communities is $72,209. See "Does Fringe Banking Exacerbate Crime Rates? Social Disorganization and the Ecology of Payday Lending, " March 22, 2010 by Dr. Charis Kubrin, George Washington University, and others at 5 and 6, attached hereto as Exhibit F and Gateway Georgia Avenue 2008 Neighborhood Profiles at 4, attached hereto as Exhibit G.

To sum up, for socioeconomic reasons, the proposed pawnshop is not suitable, useful or needed at the proposed location. Accordingly, for these reasons, the proposed pawnshop would not promote the convenience and advantage of the community within the meaning of D.C. Official Code § 47-2884.05(a), as amended by the Act.

A Pawnshop Already Exists Near the Location of the Proposed Pawnshop

A pawnshop (Kiev Pawn, 6212A Georgia Avenue, N.W.) already exists 11 blocks or a 5 minute or less drive from the proposed 7301 Georgia Avenue, N.W. pawnshop site. In light of this circumstance, a second pawnshop is simply not needed in the upper Georgia Avenue, N.W. community. Moreover, a second pawnshop in the area would likely multiply the typical adverse effects of a pawnshop on the community without providing a significant benefit to the community. For these reasons, the proposed pawnshop would clearly *not* promote the convenience and advantage of the community within the meaning of D.C. Official Code § 47-2884.05(a), as amended by the Act.

The Proposed Pawnshop Would Likely Increase Neighborhood Crime

The proposed pawnshop's operation in addition to the Kiev pawnshop operation would likely cause an increase in the rate of property crime (robberies, burglaries, thefts from cars, etc.) in the neighborhood surrounding the pawnshop. See "Does Fringe Banking Exacerbate Crime Rates? Social Disorganization and the Ecology of Payday Lending", March 22, 2010 by Dr. Charis Kubrin, George Washington University, and others at 2 and 3, attached hereto as Exhibit F, and "Pawnshops and Neighborhood Crime An Extrapolation from 'Does Fringe Banking Exacerbate Crime Rates? Social Disorganization and the Ecology of Payday Lending'", attached hereto as Exhibit H.

We think it logically follows that the likely increase in the rate of property crime in the nearby neighborhood, along with criminals selling stolen goods at the proposed pawnshop and passing through the nearby streets, would negatively impact in a significant way the residential and business neighbors' sense of safety and give them a feeling that their community is deteriorating socially, economically and otherwise.

The Proposed Pawnshop Would Cause a Significant Decrease in Nearby Real Property Values and Other Businesses to Leave and not Come to the Business District

The value of the residential and commercial properties in the nearby neighborhoods would be significantly decreased by the proposed pawnshop. Because of the typical negative atmosphere a pawnshop generates and its impact on nearby property values, the proposed pawnshop would cause desired businesses to leave the business district where the pawnshop would be located and desired businesses to not come to the business district. See the Statement of Randy Boehm, Vice-President, Gateway Georgia Avenue Revitalization Corporation, attached hereto as Exhibit I.

Recommendations

For all of the reasons discussed above, we recommend that you find:

(1) that the character of Famous Pawn is *not* such as to command the confidence of the community within the meaning of D.C. Official Code § 47-2884.05(a)(1), as amended by the Act and

(2) that permitting Famous Pawn to engage in a pawnshop business at 7301

Georgia Avenue, N.W. will *not* promote the convenience and advantage of the community within the meaning of D.C. Official Code § 47-2884.05(a)(2), as amended by the Act.

Based on our recommended findings, we further recommend that you refuse to issue the pawnbroker license requested by Famous Pawn to operate a pawnshop at 7301 Georgia Avenue, N.W. See D.C. Official Code § 47-2884.05(a)(3), as amended by the Act

Great Weight

To conclude our submission, we respectfully invite your attention to the statutory

> "The issue and concerns raised in the recommendations of the Commission [ANC] shall be given great weight during the deliberations by the government entity. Great weight requires acknowledgement of the Commission as to the source of the recommendations and explicit reference to each of the Commission's issues and concerns." and

D.C. Official Code § 1-309.10(d)(3)(B):

> "In all cases the government entity is required to articulate its decision in writing. The written rationale of the decision shall articulate with particularity and precision the reasons why the Commission does or does not offer persuasive advice under the circumstances. In so doing, the government entity must articulate specific findings and conclusions with respect to each issue and concern raised by the Commission. Further, the government entity is required to support its position on the record."

See also, Kopff v. D.C. Alcoholic Beverage Control Board, 381 A.2d 1372, 1383-1385 (D.C.App. 1977).

The purpose and intent of the statutory great weight provisions is "to make certain that neighborhood views receive specific attention by [the] agency concerned..." See Wheeler v. District of Columbia Bd. of Zoning Adjustment, 395 A.2d 85, 91 (D.C.App. 1978).

Respectfully submitted,

Yvonne Jefferson

Yvonne Jefferson
Chair, ANC 4B

7/4/2010
Date

Exhibit A

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
Business and Professional License Administration

OFFICE OF THE ADMINISTRATOR

May 28, 2010

NOTIFICATION THAT A PAWNBROKER LICENSE APPLICATION HAS BEEN SUBMITTED FOR THE PROPERTY LOCATED AT 7301 GEORGIA AVENUE NW (WARD 4)

Dear Ward 4 Advisory Neighborhood Commissions:

This is to advise you that on May 25, 2010 a pawnbroker license application was submitted to the District of Columbia Department of Consumer and Regulatory Affairs (DCRA) for the property located at 7301 Georgia Avenue N.W., Washington, D.C. 20012.

You are being notified of this application pursuant to the ***Predatory Pawnbroker Regulation and Community Notification Emergency Act of 2010*** (the Act) which states, in part, that:

> ***(A) At least 30 days prior to the issuance of a license, all Advisory Neighborhood Commissions in the ward where the pawnbroker will be located shall be provided notice that a pawnbroker license application has been submitted...and***
>
> ***(B) All affected Advisory Neighborhood Commissions have been accorded great weight during deliberations to approve or deny the license application.***

If you would like to review, comment and or provide recommendations on this application please do so no later than July 6, 2010 to:

Department of Consumer and Regulatory Affairs
Business and Professional Licensing Administration
Attention: Harold Pettigrew, Administrator
1100 4th Street, S.W., Suite E460
Washington, D.C. 20024

Respectfully,

Harold B. Pettigrew, Jr.
Administrator

Distribution List:

Advisory Neighborhood Commission 4A
7600 Georgia Avenue Suite 404
Washington, D.C. 20012
www.anc4a.org

Advisory Neighborhood Commission 4B
6856 Eastern Avenue, NW Suite 314
Washington D.C. 20012
www.anc4b.org

Advisory Neighborhood Commission 4C
P.O. Box 60847
Washington, D.C. 20039-0847
www.anc4c.org

Advisory Neighborhood Commission 4B
6856 Eastern Avenue, NW Suite 314
Washington D.C. 20012
www.anc4d.org

Advisory Neighborhood Commission 3G
P.O. Box 6252 Northwest Station
Washington, D.C. 20015
www.anc3g.org

Statement of Sara Green
Concerning Conversations with Famous Pawn Representatives

February 17, 2010 (Afternoon) -

Chris Lee called me. He said that Fred Blanken, the rental agent for 7301 Georgia, forwarded ANC 4B's invitation to the February 22 public meeting to him. Until this telephone conversation, I didn't know the name of the pawn business that wanted to operate at 7301 Georgia.

Chris Lee introduced himself as an executive with Famous Pawn and told me the company has outlets at 3228 Georgia Ave., NW, 1815 Wisconsin Avenue, NW, and Viers Mill Road near Wheaton Plaza.

Declined To Meet

No one from Famous Pawn can come to the February 22, 2010 ANC 4B meeting and meeting with the community is not necessary, he said. Instead, he told me to ask questions about the business and convey the answers to the community. I told him I am not a Famous Pawn spokesperson. A company representative needs to be reachable and accountable to everyone. I told him that we expect every business to meet with us if the community has questions or requests.

Merchandise

At my request he described the stores. He said he anticipates that the 7301 Georgia Avenue store would sell jewelry, flat screen televisions, good cameras and other electronics because that is what people would probably pawn here.

I asked him if 7301 Georgia would have merchandise equal in quality and price to the one in Georgetown. He said that the Georgetown store has antiques, fine art, and jewelry because it is frequented by "diplomats" and caters to people with more money to spend. Stores sell whatever people bring in and don't redeem, he said. Merchandise isn't moved around from store to store.

Store Exterior

He described the 7301 Georgia store at my request. No final decisions had been made, but there would be an awning, and it might have the company logo on it, perhaps with lighting. There would also be bulletproof proof glass windows. Folding metal doors would be installed inside the windows. They will pull up into a slot when the store is open. No metal bars are contemplated, he said

Permits & Licenses

The application for a pawnbroker license is "underway," he said.

Mr. Lee acknowledged that he did not post construction permits in the window as the work is taking place, but that is not a problem. "That's yesterday's news," he said. He assured me that there are permits for all of the work.

February 25, 2010 1:14 p.m.

Declined To Meet

I called Mr. Lee to ask again that he meet with the community at a date of his choosing. I noted that ANC 4B adopted a resolution on February 22 opposing the business.

He said that Famous Pawn does not meet with community groups. It's too unpleasant and unproductive, and the company is not required to do so. Mr. Lee said that even if he wanted to meet with us (and he didn't), he would have to get approval from top executives in Texas.

I told him that we expect all of the businesses in our neighborhood -- from national chains, like Safeway, to "mom and pop" tailor shops -- to meet with us at our request, particularly if there is a problem or a concern, and businesses do come to meetings. Business people know that some meetings might be unpleasant, but that's part of running a business. I said he must be aware that his industry has an unsavory reputation. Declining an invitation to meet with the community only reinforces this image, I said.

Permits Not Posted

I reminded him that during our last phone conversation we discussed the company's failure to post building permits in the window, as required by DC law. He said that he would ask about this.

February 26 & 27 Emails

Famous Pawn offered to participate in a charitable program, similar to one they did at a "local orphanage" in another state.

March 5 Email

I noted Mr. Lee's refusal to meet and attached ANC 4B's February 22 resolution.

Meeting With Chris Lee & Other Famous Pawn Executives
March 25, 3:15 p.m., Office of Council Member Muriel Bowser

a. An executive (not Chris Lee) apologized for the poor condition of the 3228 Georgia Avenue, NW store. He said that he wasn't aware of the problem. (I have photographs of the store on my web page and he apparently saw them.)

b. The 3228 Georgia Avenue store is being closed because the owner of the building wants to redevelop it. It's hard to find vacant stores on Georgia Avenue. They looked for a long time before they found this space.

c. Famous Pawn expects the 7301 Georgia Avenue store to be a destination store for all parts of DC and perhaps Maryland. They expect the customers who now use 3228 Georgia to come to 7301 Georgia. They aren't familiar with the demographics of our neighborhood, but those statistics weren't relevant to their decision to rent the space.

d. When asked if the store could offer better quality merchandise than what is sold at 3228 Georgia, the executives explained that their stores sell whatever is pawned there. It would be hard to predict. Famous Pawn does not buy merchandise to sell in its stores.

e. Famous Pawn can operate profitably at the 24 percent cap on annual interest that is mandated in PR18-0715, the "Predatory Pawnbroker Regulation Act of 2010."

Meeting With Roderick Woodson, Attorney For Famous Pawn
May 21, 4 p.m., ANC 4B's Office, 6856 Eastern Avenue, NW

a. Mr. Woodson apologized for Famous Pawn's refusal to meet. They don't understand how D.C. works and aren't familiar with Advisory Neighborhood Commissions. Only one or two other U.S. cities have them.

b. Mr. Woodson said the 7301 Georgia store would draw from many neighborhoods, particularly those on the east side of Rock Creek Park. The park is a barrier that makes venturing into Georgetown to shop at the Wisconsin Avenue store inconvenient.

c. Mr. Woodson said that no market studies have been done to determine our neighborhood's need for a pawnshop. However, people of all incomes use pawnshops.

d. I noted that the interest rate the company charges varies significantly -- 60 percent in D.C. and 144 percent in Wheaton. Mr. Woodson said that this company and others charge what the market will bear.

e. Mr. Woodson said Famous Pawn plans to make the 7301 Georgia store into a high-end operation, just like the Georgetown store. Only gold and fine jewelry will be sold. There will be no tools, bikes, etc. Kelly Shuy noted that a resident pawned a bicycle at the Georgetown store and showed her the pawn ticket.

f. Mr. Woodson said Famous Pawn would be willing to enter into a Memorandum of Understanding committing to the kind of merchandise to be sold and the exterior condition of the shop, etc. Mr. Sharpe responded that such a memorandum would only be worthwhile if the community could trust that the company would live up to the agreement. He and others at the meeting said they would like to see what the company proposes.

Sara Green

Sara Green, Commissioner
Advisory Neighborhood Commission Single Member District 4B01

June 1, 2010 Date

Exhibit C

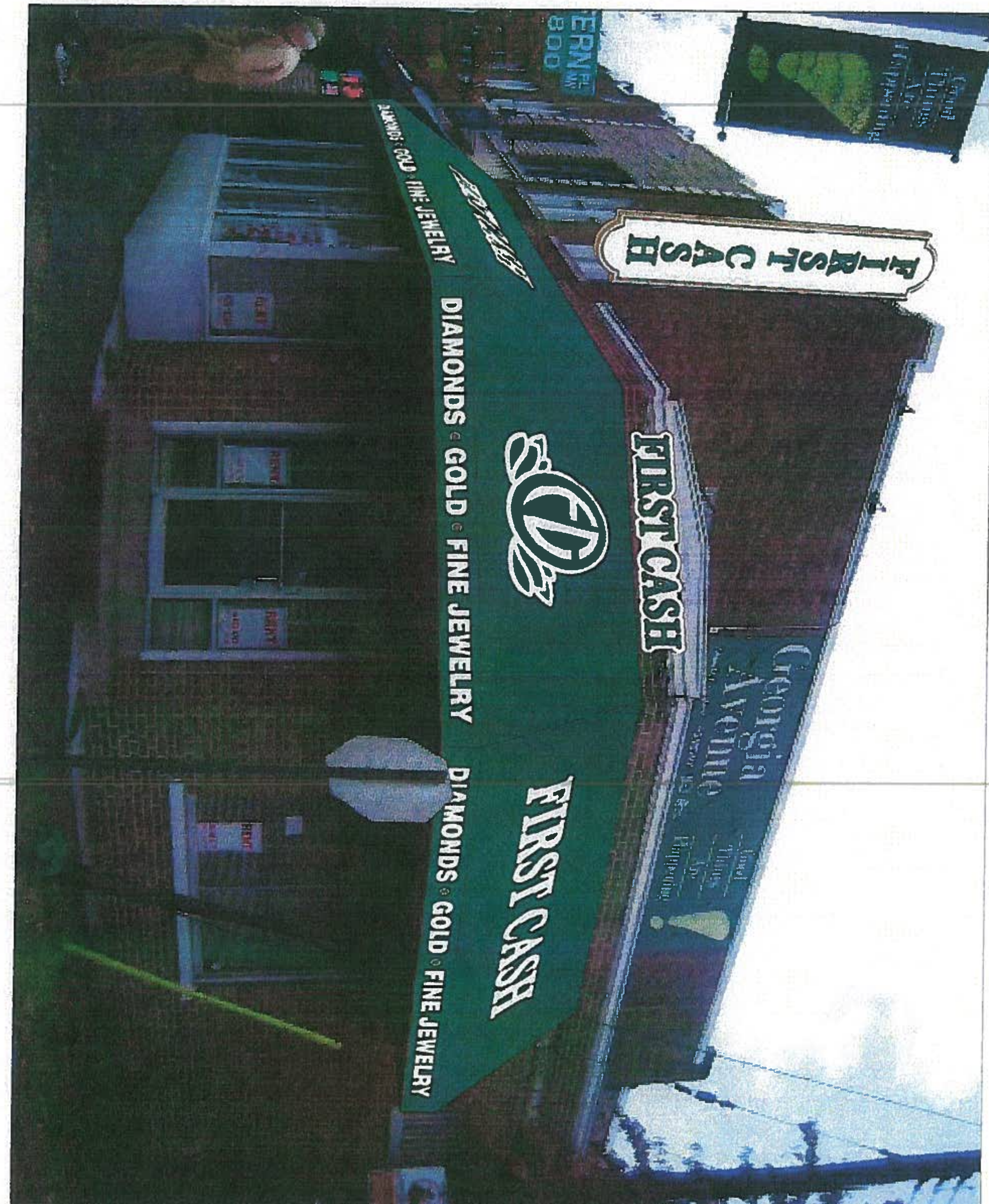
FIRST CASH
FIRST CASH
DIAMONDS • GOLD • FINE JEWELRY
FIRST CASH
DIAMONDS • GOLD • FINE JEWELRY
Georgia Avenue

Exhibit D

IN THE SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA
Civil Division

ANDRE R. CARLEY, et al.	:	
Plaintiffs	:	
v.	:	Case No.: 0002262-10
DISTRICT OF COLUMBIA	:	
Defendant	:	

TEMPORARY RESTRAINING ORDER

The parties appeared for hearing on Plaintiffs request for a temporary restraining order on the morning of April 12, 2010. Plaintiffs contend *inter alia* that Defendant is required to provide notice to Plaintiffs of any applications for licenses or permits submitted by Famous Pawn Inc. in connection with its occupancy and use of 7301 Georgia Avenue N.W. pursuant to D.C. Code § 1-207.38(d). Defendant is understood to argue that the notice requirement of said statute does not apply when the Government's response to the application is deemed ministerial. In the absence of authority to the contrary, the court is inclined to interpret the statutory language literally and concludes that notice is required and that Plaintiffs are likely to prevail on the merits of their claim as to this issue. Upon consideration of the arguments of counsel and the record herein, the court further finds (1) that Plaintiffs will likely suffer irreparable harm if denied timely notice in that the efficacy of their opposition to business activities considered unwholesome to the community would be prejudiced, (2) that potential harm to Defendant or any other entity as a result of this temporary restraining order is virtually *nil* and (3) issuance of a temporary restraining order is consistent with the public interest. Accordingly it is this 13th day of April, 2010, *nunc pro tunc* to April 12, 2010, ORDERED that the Motion for Temporary Restraining Order is GRANTED in part, and it is further

ORDERED that Defendant shall timely notify ANC 4A and ANC 4B pursuant to D.C. Code § 1-207.38(d) of any future applications submitted to it by or on behalf of Famous Pawn, Inc., for a permit or license to establish and operate a pawnshop at 7301Georgia Avenue, N.W., Washington, D.C.,; and it is further

ORDERED that bond is set in the nominal amount of $10.00, and it is further

ORDERED that this Temporary Restraining Order expires at 10:00 a.m. April 30, 2010, unless extended by the court, and it is further

ORDERED that this matter be scheduled for hearing on Plaintiffs' request for a preliminary injunction at 10:00 a.m. April 30, 2010.

Robert S. Tignor
Robert S. Tignor, Senior Judge
Superior Court for the District of Columbia
4/13/10 930pm

cc:

Mark G. Chalpin, Esq.
1509 Woodwell Road
Silver Spring, MD 20906

Samuel Sharpe, Esq.
7437 9th Street, N.W.
Washington, D.C. 20012

Martha Mullen
Senior Assistant Attorney General
441 4th Street, N.W., Suite 600 South
Washington, D.C. 20001

Timeline of Major Actions Concerning Famous Pawn Relocation

January 25, 2010
ANC 4B meeting
At this meeting ANC4A Chairman Steve Whatley first announced to the community that two new businesses were locating in the 7300 block of Georgia Avenue, a "nail salon" and a "pawnbrokers business". He stated that he found this out by talking to "people on the street". He identified 7301 as the location for the pawnbroker's. Subsequent calls to the buildings owner, Dr. Wesley Gordon and the realtor, Mr. Fred Blankenship went unanswered. A visit to DCRA and a check of public records verified that a building permit was issued for the site. No required notices were in place for public view at 7301.

February 22, 2010
ANC4B meeting
ANC 4B unanimously voted to oppose the issuance of a Pawnbrokers license to Famous Pawn at 7301 Georgia Avenue, NW

Meeting with CM Bowser:
March 25, 2010
3:00PM
Meeting Location: Councilmember Bowser's Office
Wilson Building 1350 Pennsylvania Ave., NW, Suite 110

Met with: Chris Lee, VP Operations First Cash Financial and
2 local Famous Pawn Representatives

Also in attendance:
Muriel Bowser, Councilmember, Ward 4
Mr. Sam Sharpe, Esq. Attorney
ANC4B01 Commissioner Sara Green
Robert Hawkins, Esq., Legislative Council, Committee on Public Service and Consumer Affairs, Chair, Muriel Bowser
Andre R. Carley, resident and VP, Concerned Neighbors, Inc
Dr. Peter Matos, resident (via conference phone)

Meeting summary
There were 2 meetings. The first involved the Famous Pawn (FP) representatives, CM Bowser, Mr. Hawkins, and Andre Carley. The second meeting occurred approx. 20 minutes later and included Mr. Sharpe, ANC Sara Green and Dr. Matos (by phone) Chris Lee spoke for FP. Mr. Lee is VP of Operations for First Cash Financial, parent company of Famous Pawn. First Cash is a publicly traded company with affiliates in many states and Mexico. Famous Pawn has been at their present location for 28 years (3228 Georgia Avenue). It is relocating to accommodate the new owner of the property. They are committed to 7301 Georgia and signed a lease in December, after receiving a zoning verification letter. They want to mirror the operation of 7301

after the Georgetown store, focusing on mid to high-end jewelry. Commissioner Green confirmed the operation of the G-Town store. Mr. Lee further spoke on the stigma attached to pawnshops as being false. FP has very stringent security protocols. They conduct background checks of all employees. They log all pawned items to a daily electronic database, which is accessed by MPD and local law enforcement agencies. Newly boxed or unopened items are refused. Anticipated hours of operations are: 10:00AM-7:00PM M-F, 10:00AM-6:00PM Sat, closed Sunday. The average loan amount is $350.00-$1,200.00, with an 88% closure rate. The site will staff 3-6 employees. They have spent between $100,000.00 to $200,000.00 dollars on renovating the space. FP feels they provide a necessary service by providing small short-term loans to the community. They stated (Mr. Lee and his colleagues) that the 24% interest cap imposed by the pending "Predatory Pawnbrokers Act of 2010" emergency legislation would not pose a problem for their operation. When asked as to whether they expected community patronage, they answered negatively, indicating they expected their present customers to follow them to the new location and the considered the business to be an "outlet destination" meaning they expect customers from the overall DC metropolitan area. They emphasized they were willing to work with the community. ANC Green then wanted to know why earlier attempt to have representatives of Famous Pawn to meet with the community were rebuffed. Mr. Lee stated that his company felt that they would be walking into a hostile situation and they would have come if a draft agenda of the meeting topics and questions would have been given to them in advance.

The meeting ended without agreement.

April 12, 2010
Temporary Restraining Order Hearing
DC Superior Court
Judge Robert Tignor

In attendance:
Representing Plaintiffs:
Mark Chalpin, Esq.
Samuel Sharpe, Esq.

Representing Defendants:
Martha Mullen, Esq. Office of Attorney General, DC
Mr. Nicholas Majett, Deputy Director, DCRA

Plaintiffs:
Andre R. Carley, resident,
VP Concerned Neighbors, Inc.

Sara Green, resident
ANC4B01 Commissioner

Dwayne Toliver, resident
ANC402 Commissioner (not in attendance)

Of note: It was determined that Famous Pawn had not applied for a Pawnshop license. A Certificate of Occupancy has been issued.

TRO was granted.

April 20th
Passage of emergency legislation
The Predatory Pawnbroker's Act of 2010 was passed. The bill capped interest rates for pawnshops in DC to 24% after April1. It transferred licensing authority from DCRA to DISB (Department of Insurance, Securities and Banking). It also allows for recognition of community input through the ANC's "great weight" provision. The law is in effect for 90 days.

April 29th
Special ANC 4A Meeting
Topic: Pawnshop
In attendance:
ANC4A Commissioners
Steve Whatley, Chairman (ANC4A03)
Dwayne Toliver, ANC4A02
Karl Kennedy, ANC4A01
2 other ANC Commissioners
Nicholas Majett, DCRA
Sara Green ANC4B01
Robert Hawkins, Esq., Legislative Council, Committee on Public Service and Consumer Affairs, Chair, Muriel Bowser
Kennedy Davis, Northwest Current
Tim Shuy, resident
Andre R. Carley, resident
A few other persons in attendance

Mr. Chris Lee of First Cash Financial gave a brief presentation as to why Famous Pawn should be allowed to do business in the neighborhood.

Mr. Majett gave a presentation on why DCRA's ministerial argument was the correct one. He could not speak at length on the subject due to the ongoing litigation.

ANC4B Commissioner Sara Green gave a status report on the pawnshop litigation.

CM Bowser's Legislative Council, Mr. Robert Hawkins gave a report on the emergency legislation.

After presentations: ANC4A voted to oppose issuance of a Pawnshop and Basic Business License (BBL) to Famous Pawn. The resolution was amended to delete the reference to the BBL at the ANC4A meeting on May 4th.

Of note: It was determined that Famous Pawn had not applied for a Pawnshop license.

April 30th
Preliminary Injunction Hearing
DC Superior Court Judge
Judge: Alfred S. Irving, Jr.

In attendance:
Representing Plaintiffs:
Mark Chalpin, Esq.
Samuel Sharpe, Esq.

Representing Defendants:
Martha Mullen, Esq. Office of Attorney General, DC
Mr. Nicholas Majett, Deputy Director, DCRA

Plaintiffs:
Andre R. Carley, resident,
VP Concerned Neighbors, Inc.

Sara Green, resident
ANC4B01 Commissioner

Dwayne Toliver, resident
ANC402 Commissioner (not in attendance)

DC Superior Court Courtroom B-52. DCRA and Plaintiffs agreed to a stay of legal proceedings pending City Council legislation outcome. Status Hearing is scheduled for October 29th, 2010

May 5th
Passage of temporary legislation
The Predatory Pawnbroker's Act of 2010 was passed. The law is in effect for 225 days pending a public hearing and vote on permanent legislation. A DC City Council hearing soliciting public comment is scheduled for May 26th.

May 21st
Opening a Dialogue with Community
In Attendance:
Rod Woodson, Attorney
Sam Sharpe, Attorney, and affected resident

Sara Green, ANC 4B01 Commissioner
Dwayne Toliver, ANC 4A02 Commissioner
Andre R. Carley, affected resident
Kelly Shuy, affected businessperson

Of Note:
Mr. Woodson first reached out to Commissioner Green and proposed a meeting with only ANC representatives. He wanted to talk to ANC's Green and Toliver and also ANC4A Chairman Steve Whatley. Commissioner Green declined this arrangement and agreed to a meeting only if representatives of the community could be present as well.

Meeting with Famous Pawn Representative
Mr. Rod Woodson of the law firm Holland and Knight, has been retained as counsel for First Cash Financial (Famous Pawn). Meeting was scheduled for 4:00PM but did not begin until 4:47PM. Due to a scheduling error Mr. Woodson arrived late. The meeting opened with introductions. Mr. Woodson stated that he had earlier conversations with Councilmember Bowser's office, and ANC's Green and Whatley. He indicated that he had seen ANC 4B's resolution in opposition to the establishment of the pawnshop at 7301 Georgia Avenue, on Sara Green's website. To assuage the concern that the business would bring undesirables and crime to the neighborhood, he explained that the proposed operation is not a traditional pawnshop. It would mainly deal in jewelry and precious stones. He compared it to the First Cash Pawn operation in Georgetown. There will be no facility to handle a broad variety of items. There will be no lawn equipment, or weapons. First Cash Pawn will fill the "alternative banking" needs of the community. He then passed out copies of a conceptual photograph of what the site would look like. Andre Carley noted that the concept portrayed the site as a First Cash Pawn instead of a Famous Pawn. Mr. Woodson stated that First Cash wanted to move their business (Famous Pawn) from 3228 Georgia Ave. because they did not like the condition of the business site. There was a long discussion on the expected patronage of the pawnshop. Mr. Woodson indicated that the target market would be mostly from other communities and the suburbs. This brought up the question as to whether the business should be considered local or a destination location. Mr. Toliver expressed his dismay at the lack of good faith and intentions that First Cash has consistently exhibited in its dealings with the community. He listed instances of not posting the required building permits, and resisting efforts to meet the community to discuss their plans for the pawnshop and how it would benefit our community. Ms. Kelly Shuy also agreed with Mr. Toliver that First Cash has not acted in good faith in its dealings with the community. Mr. Sharpe then explained to series of events leading up to the issuance of a Temporary Restraining Order (TRO). Sara Green complained that she could not persuade First Cash to meet with the community at the upcoming ANC4B meeting. Mr. Woodson said he advised First Cash to decline the invitation to meet with ANC4B until he had a chance to meet with the principals. Ms. Shuy complained about the lack of upkeep of the tree box area in front of the building, to which Mr. Woodson responded that they (First Cash) would see to grass trimming. He explained he was hired to bring about a positive "PR" presence to First Cash's

relationship with the community, and that he considered this meeting an "opening conversation; the beginning of discussion." Mr. Toliver stated that if there was to be a negotiation at the minimum (and hypothetically):

• Interest rate charged would have to be lower
• No hidden fees
• Cooling off period before agreeing to pawn/loan

Mr. Woodson made note of these issues and proposed drafting an outline in preparation of negotiating a "Voluntary Agreement" between First Cash and the community and sending to us for review. This offer was accepted. Ms. Shuy stressed that any agreement reached is "only as good as the character of the parties". The meeting adjourned at approximately 7:30 pm.

May 25th,
Pawnshop license application filed by First Cash Financial
An email notifying Councilmember Ward4 Muriel Bowser that First Cash Financial has filed an application for a pawnshop license at 7301 Georgia Ave., NW and:

"Pursuant to your bill, the Predatory Pawnbroker Regulation and Community Notification Emergency Act of 2010, we're issuing a notice tomorrow to all ANC's in Ward 4 that states that 1) the application has been submitted, 2) they have 30 days to comment or provide recommendations on the application, and (3) that their comments will be accorded "great weight" in any deliberations considering the application. We'll also provide the name and address of the individual to whom their comments should be addressed and a date specific by which their comments must be received."

June 11th,
Pawnbroker and Payday Lender Dumping Cash Into Council, Mayoral Races
A City Paper "Housing Complex" post by Lydia DePillis reported that First Cash Financial Services made contributions to several Councilmember's election funds and Chairman Vince Gray's mayoral campaign. In this article, Rod Woodson, attorney representing FC said that FC would close its 2 stores in DC if the bill was passed in its present form.
http://www.washingtoncitypaper.com/blogs/housingcomplex/2010/06/11/pawnbroker-and-payday-lender-dumping-cash-into-council-mayors-races/

June 21st,
Negotiation points were sent by Rod Woodson via email to the attendees of the May 21st meeting outlining First Cash's beginning discussion points
A meeting between the attendees, minus Mr. Woodson, was scheduled for Wednesday June 23rd to discuss a response.

June 22nd,
Mr. Woodson asked for a response to his email of June 21st.

June 23rd
Meeting was held, and a response drafted.

June 24th
Response sent to First Cash be way of Rod Woodson via email

June 25th
First Cash reply to correspondence of June 24 received and disseminated.

June 27th
Reply to correspondence of June 25th sent to First Cash via Rod Woodson

June 28th
ANC 4B votes to recommend opposition to relocation of Famous Pawn to 7301 Georgia Ave., NW, in accordance with the "great weight" provision stipulated by the temporary law enacted May 5th.

Signed:

Andre R. Carley

June 28, 2010

Exhibit F

**Does Fringe Banking Exacerbate Neighborhood Crime Rates?
Social Disorganization and the Ecology of Payday Lending***

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March 22, 2010

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Does Fringe Banking Exacerbate Neighborhood Crime Rates?
Social Disorganization and the Ecology of Payday Lending

Abstract:

Payday lenders have become the banker of choice for many residents of poor and working class neighborhoods in recent years. The substantial costs that customers of these fringe bankers incur have long been documented. Yet there is reason to believe there are broader community costs that *all* residents pay in those neighborhoods where payday lenders are concentrated. One such cost may be an increase in crime. In a case study of Seattle, Washington, a city that has seen a typical increase in the number of payday lenders, we find that a concentration of payday lending leads to higher violent and property crime rates, controlling on a range of factors traditionally associated with neighborhood crime. Social disorganization theory provides a theoretical framework that accounts for this relationship. The findings suggest important policy recommendations that could ameliorate these costs.

Payday lenders have become the banker of choice for many residents of distressed urban communities in the United States. By offering cash advances on post-dated checks, a growing number of financially-strapped families are obtaining the money they need to get by at least in the short-run. As just one piece of a growing fringe banking industry (consisting of check-cashers, pawn shops, rent-to-own stores, and other high-cost financial services) payday lenders provide services but at a heavy cost to some of the most financially vulnerable families. Much attention has been given to the costs the customers of such services are incurring. Yet there may well be additional broader community costs that have been ignored in recent debates and in the scholarly literature. One of those, and the focus of this research, is a possible link between payday lending and neighborhood crime rates.

While pawn shops, loan sharks, and other predatory financial service providers have long histories, the number and range of such fringe banking institutions have mushroomed in the latter part of the twentieth and early years of the twenty-first centuries, amidst great controversy. In financial services, the rise of subprime and predatory lending has led to record foreclosure rates. A broader economic recession is now reaching overseas. These developments have been followed by unprecedented bailout and rescue plans. While these events have received most of the attention in financial industry circles, the rise in payday lending and other high-priced services has hardly gone unnoticed. Critics accuse payday lenders with charging exorbitant, exploitative interest rates and fees and several states have taken legal action to restrict their activities or virtually put them out of business altogether. Providers maintain they are offering valuable services to markets that are ignored by conventional financial services (e.g. banks, thrifts, credit unions) and that their costs simply reflect the risks they encounter as well as other legitimate business costs.

The debates over payday lending so far have focused almost exclusively on the implications for the immediate customers. Yet given the location of these services and the socio-economic status of their customer base—what we refer to as the ecology of payday lending—there may be other costs incurred by the communities in which they are located, costs that are paid by community members who do not use their services along with those paid by the clients. One potential cost for all residents appears to be higher crime rates in communities where payday lenders are located. There are theoretically plausible reasons for such a link, starting with the simple fact that where there are payday lenders there is a concentration of cash among store customers often late into the evening and during weekends in neighborhoods where many residents are experiencing financial hardships. Social disorganization theory offers a more detailed explanation for such a link. And in the following pages we provide some empirical evidence that, in fact, such a connection exists.

Below we report on a case study of a fairly typical U.S. city where payday lending has grown in recent years, Seattle, Washington. In our discussion leading up to the analysis, we note the growth of payday lending and fringe banking generally in the U.S. and the controversy that has resulted. Next we elaborate on why the hypothesized relationship between payday lending and neighborhood crime rates might exist. Finally, we provide empirical evidence for that relationship in Seattle neighborhoods. Crime is just one community cost that may well be associated with payday lending and in the conclusion, we briefly note other potential costs. We conclude with a discussion of policy implications of our findings and recommendations for future research.

The Growth of Fringe Banking and Payday Lending

A two-tiered system in financial services has emerged in the U.S. in recent years, one featuring conventional products distributed by banks and savings institutions and the other featuring alternative, higher-cost services offered by payday lenders, check cashers, and pawnshops—often referred to as "fringe bankers." Minority and low-income families are more likely than other families to use fringe banking services (Caskey 1994; Hudson 1996; Karger 2005). Alternative financial services are disproportionately (though not exclusively) located in low-income, minority neighborhoods and disproportionately serve minority customers (Fellowes 2006; Graves 2003; Li et al. 2009; Logan and Weller 2009; Temkin and Sawyer 2004). Users of these services pay greatly for the privilege.

Fringe banking has been the subject of much policy debate among financial service providers, regulators, elected officials, and consumer groups. This reflects, in part, substantial growth of fringe banking, its concentration in distressed communities, and adverse economic consequences for those who rely on these institutions for financial services. To illustrate, payday lending outlets were virtually non-existent in 1990 but by 2006 there were more than 15,000 outlets which extended $25 billion in credit (Lawrence and Elliehausen 2008:299). By 2008, more than 22,000 locations originated over $27 billion in loan volume annually (Parrish and King 2009:11).[1] The growth of payday lending has been impressive, growing faster than Starbucks during the mid-1990s (Graves and Peterson 2008: 668). Today there are more payday lenders than McDonald's restaurants (Karger 2005:73).

[1] Payday loans are cash advances on a post-dated personal check generally for two weeks or less when the borrower will receive the next paycheck. Amounts are typically in the range of $300-$500. In order to qualify, a borrower must have a checking account, source of income, and identification. Typically the borrower writes the check for an amount exceeding the cash loan (to cover the finance charge, generally $15-$30 per $100 or approximately a 390-780 percent annual percentage rate for a two week loan). At the next payday, the borrower can repay the full loan amount, the check could be deposited for payment, or the borrower can pay the finance charge and renew the loan for another term (Consumer Federation of America 2007:3,4).

Several studies demonstrate that these services are concentrated in low-income and minority-neighborhoods, though they are starting to grow in many working and middle-class neighborhoods. In North Carolina there are three-times-as many payday-lenders per-capita in African American neighborhoods as there are in white neighborhoods (King et. al 2005). In the state of Washington, the site of the current study, they are twice as likely to be located in African-American as white areas and they are also concentrated in poverty zip codes (Oron 2006). In California they are eight times as concentrated in African-American and Latino neighborhoods as in white neighborhoods. Even controlling on income, poverty, population, education, and other socio-economic factors the racial disparity persists (Li et al. 2009:2). In Denver neighborhoods where the median income is below $30,000 there is one check-casher for every 3,196 residents compared to one for every 27,416 residents in neighborhoods where the median income is between $90,000 and $120,000 (Fellowes 2006:26-28).[2]

These services are expensive and it is struggling working families who are paying the highest costs. The Center for Responsible Lending reported that payday lending costs U.S. families $4.2 billion in excessive fees, that is fees which exceed the risk posed by borrowers and the costs of similar services provided by conventional financial institutions (King et al. 2006:2,7). Ironically, over 75 percent of these fees cover the costs of loans taken out by borrowers to repay debts incurred from previous payday loans, which they were unable to pay when the debt originally came due (Parrish and King 2009:11). Payday lenders claim their fees reflect the costs of doing business and note they are providing services in communities not being served by banks, thrifts, or credit unions. Given the history of redlining and discrimination in U.S. financial service industries, it is the case that payday lenders are operating in communities

[2] Check cashers are businesses that charge a fee for cashing checks (Karger 205:215).

that have been traditionally underserved though that has begun to change in recent years (Immergluck 2004).

Payday lenders also assert their borrowers are primarily middle-income though recent research indicates it is low- and moderate-income borrowers who constitute a disproportionate share of customers. A study of Colorado borrowers found that those earning less than $30,000 a year make up two-thirds of payday lender customers. A Texas study found that the median income of borrowers was $18,540 (Fox 2007:6,7). A 2001 nationwide survey found that 23 percent earned less than $25,000 and 51.5 percent earned between $25,000 and $50,000 (Lawrence and Elliehausen 2008:305). In its 2007 Survey of Consumer Finances, the Federal Reserve, for the first time, asked if respondents had taken out a payday loan in the previous year. Those who did so had a median income of $30,892 compared to $48,397 for those who had not taken out such loans. And payday loan borrowers had a median net worth of zero compared to $80,510 for non-borrowers (Logan and Weller 2009:8).

The industry also claims its customers are generally people who use their services only on rare occasions to meet sudden emergencies. According to the 2001 survey, however, over 22 percent had 14 or more payday loans that year, another 26 percent had more than six, and just 15 percent had only one or two (Lawrence and Elliehausen 2008:311). The Center for Responsible Lending found that less than 2 percent of all payday loans went to borrowers who just took out one loan. Repeat borrowing was much more common with over 60 percent of loans going to those who took out 12 or more loans per year and 24 percent going to those with 21 or more per year (King and Parrish 2007:2,3). Half of these loans were taken out within one day of repaying a previous loan, further indicating that borrowers often take out such loans in order to retire the debt of previous payday loans (Parrish and King 2009:8). Given the high fees and frequent use, payday loans have been referred to as "debt traps" by many consumer groups (Fox 2007:7,8).

Policymakers have begun to listen to consumer complaints. In 2006 Congress prohibited payday lending to military members and capped at 36 percent the interest rate that could be charged to them on any loan in connection with any other product (Powers 2006). Fifteen states and the District of Columbia have small loan usury laws or rate caps that effectively prohibit payday lending at triple-interest rates (Center for Responsible Lending 2010:7). Several more states and Congress are considering legislation and regulations restricting such lending (American Banker 2007). However, some national banks (e.g., Wells Fargo, U.S. Bank) are now offering "direct deposit advance" or "checking account advance" products that are similar to payday loans. Because the Office of the Comptroller of the Currency has preempted many state banking laws, the national banks it regulates can, legally, make such loans. And they are doing so in at least six of the states with the 36 percent cap (Center for Responsible Lending 2010).

All this attention is generated primarily by the growth of the industry, the fees that are being charged, and the customers and neighborhoods which are being targeted. Borrowers are clearly paying high costs, as already noted.[3] Lost in this discussion, however, are the broader costs that many communities may be incurring, including heightened levels of crime and violence. Payday lenders are concentrated in precisely those neighborhoods where crime rates are highest and where ex-offenders are most likely to return once they have served their sentence (Lynch and Sabol 2001:3, Rose and Clear 1998, Visher et al. 2004). No research, however, has examined the direct impact of fringe banking services on neighborhood crime rates. There is

[3] There is evidence that payday lending also increases the odds of bankruptcy, difficulty making mortgage and rent payments, having to move out of one's home, and delaying medical and dental care as well as purchasing prescription drugs (Melzer 2007).

reason to believe that such a connection exists and that it is quite costly. Social disorganization theory offers some explanation for why this may be the case.

Social Disorganization Theory and Neighborhood Crime Rates

Social disorganization theory has emerged as the critical framework for understanding the relationship between neighborhood characteristics and crime in urban areas. According to the theory, certain neighborhood characteristics can lead to social disorganization, defined as the inability of a community to realize the common values of its residents and maintain effective social controls (Kornhauser 1978:120). Social disorganization, in turn, can cause crime.

The most commonly studied aspects of neighborhoods include levels of economic deprivation, residential instability, and population heterogeneity. An impressive literature conducted over decades has found that these and related characteristics are positively associated with community crime rates, both directly and indirectly through their effect on neighborhood processes such as informal social control and collective efficacy (for a review of this literature, see Kubrin and Weitzer 2003).

Along with these community characteristics, local institutions are theorized to play a key role in shaping crime rates. This occurs in large part because such institutions structure the daily interaction patterns of residents, affect the ability of communities to exercise social control, and influence available routes to valued goals such as economic or community development. Disadvantaged neighborhoods, in particular, have difficulty attracting and maintaining the types of local institutions that impede crime by providing community stability, social control, and alternatives to occupy residents' time (Peterson et al. 2000:32).

Neighborhood studies of crime have focused on a variety of local institutions such as bars, public housing, and recreational facilities. It is argued that recreation centers and libraries "provide places and activities where people can gather, thereby structuring time and observing each other in public. To the degree that these institutions offer organized activities, they place local residents in settings that promote and facilitate the sharing of common values and goals. As this occurs, community networks are more likely to form and fulfill control functions" (Peterson et al. 2000:34). Likewise, banks and other economic institutions are important in terms of their potential function to connect local areas with larger political and economic institutions such as business associations and government agencies, enhancing the ability of neighborhoods to gain services and protection that help reduce crime.

Other types of local institutions, however, such as bars, may serve to encourage criminal behavior in neighborhoods. Researchers have argued their presence can cause crime directly, by inducing violence within these establishments themselves (because of intoxication and impaired judgment) and indirectly, by undermining informal social control in communities where bars are densely located (Parker 1995; Roncek and Maier 1991).

In a study on the role of local institutions and their effect on violent crime rates in Columbus, Ohio neighborhoods, Peterson et al. (2000) find further support for these arguments. They document that a greater prevalence of recreation centers reduces violent crime, at least in the most economically disadvantaged areas of Columbus. They also document that a greater prevalence of bars in Columbus tracts is related to higher levels of violent crime. Beyond their study and previous research, however, they claim "...scholars have not explored the empirical linkages between the presence of various types of institutions and neighborhood crime" (pg. 36) and caution that "additional research is needed to specify more fully what types of institutions…will have the most payoff" for reducing community crime rates (pg. 57).

We would like to add payday lenders to the list of local institutions that may affect community crime rates. We argue here that, like bars, they encourage crime and violence in communities. At a minimum, the availability of cash in distressed neighborhoods at readily identifiable businesses, often open during evening and weekend hours, suggests a probable link between crime, particularly violent crime, and payday lending. Residents who use payday lenders leave these establishments often with great sums of cash in their wallets, a fact likely not overlooked by potential criminals. Moreover, a concentration of payday lenders may constitute a visible sign of neighborhood decline and signal to potential troublemakers that informal social control is weak at best.

It is also reasonable to believe that some of the increase in crime could be attributable to the manner in which payday lenders may lubricate the cash-only drug trade. In places where cash is available on a moment's notice to anyone with a job or government check, those wanting to fuel an addiction, or deviant lifestyle, need not wait until payday with ample payday loan opportunities. And persons who find themselves in an ever descending debt spiral, perhaps pressured by the threats of debt collectors, would also seem more likely to suffer from stress, anxiety, fear and other emotional difficulties that manifest themselves in violence, particularly against family, co-workers, friends, and neighbors, as strain theories would predict. It is also easy to imagine that hopelessly indebted persons might turn to other forms of crime to compensate for the debt incurred to payday lenders. In short, there are several reasons why the presence of payday lenders in neighborhoods may be associated with violent and property crime rates in those neighborhoods.

Previous research has investigated the relationship between crime and residential instability, poverty, unemployment and other factors. Previous research has also documented the effect of local institutions including bars and recreational facilities on community crime rates. To date, however, no research has systematically examined the relationship between payday lending and crime. In fact, there is very little overlap in the payday lending and crime literatures, despite the plausibility of such a relationship. As such, this is the first empirical examination of the fringe banking-neighborhood crime nexus. In this study, we examine the direct effects of payday lending on crime, controlling for a range of variables identified by social disorganization theory as predicting neighborhood crime rates.

The Research Context

The city of Seattle, Washington was selected because it is a representative major U.S. city (with a population of over 550,000, of which nonwhites account for 30 percent) and is located in a state where payday lending has grown substantially over the last several years. Payday lending was legalized in the State of Washington in 1995. It grew slowly at first, but then gained momentum in 2003 when the state legislature increased the maximum loan amount from $200 to $700. In Seattle, the number of payday lenders has grown from 37 in 2003 to 52 in 2007, an increase of nearly 41 percent. Equally important, as in most metropolitan areas, the location of payday lenders in Seattle is concentrated in low- and moderate-income and minority communities, where crime rates are the highest. We also selected Seattle as our study site because it is rather typical in terms of the number and density of payday lenders. Payday lenders in Seattle do not exhibit any unusual spatial pattern as one might find in heavily ghettoized cities or cities with a significant military presence. Finally, we chose Seattle because it has been the focus of numerous studies of community crime rates over the last two decades (Crutchfield 1989;

Kubrin 2000; Matsueda, Drakulich, and Kubrin 2006; Miethe and McDowall 1993; Warner and Rountree 1997). The current study builds on this literature.

The primary question we explore is whether those neighborhoods that have a relatively greater share of payday lenders also exhibit higher crime rates after taking into consideration a range of factors known to be associated with crime (e.g. poverty, unemployment, population turnover, and related socio-economic factors) as well as other potential explanatory factors associated with spatial autocorrelation and endogeneity. These findings will inform current policy debates and suggest specific directions for future research on the impact of payday lending as well as theoretical understandings of neighborhood crime and community development generally.

Data and Methodology

To examine the relationship between payday lending and neighborhood crime rates, we perform a series of regression analyses using data on the location of payday lenders in conjunction with census and crime data for census tracts in Seattle. Census tracts approximate neighborhoods and are the smallest geographic level for which all three datasets are available.[4]

Independent Variables

Our key independent variable is the prevalence of licensed payday lenders in Seattle census tracts in 2005. To calculate this variable, we divide the number of payday lenders in a tract by the tract population size (expressed in units of 1,000 persons) and take the natural logarithm. The raw data on payday lenders were collected by Steven Graves as part of a larger

[4] Seattle has 123 census tracts but only 116 were included in the analyses. Recently several tracts have been reconfigured into other tracts or eliminated altogether. Tract 23 is now subsumed in tract 40, tract 55 is now subsumed in tract 57, and tract 37 no longer exists. The remaining tracts were excluded because they encompass

study focused on payday lenders and the military (Graves and Peterson 2005). The street address for each lender was assigned a census tract number using ArcView GIS. In the 116 Seattle tracts for which crime data were available, there were 44 lenders in operation in 2005. This is comparable with other major U.S. cities including Milwaukee (41), Fort Worth (62), San Francisco (45) and Salt Lake City (53). The minimum number of payday lenders in a Seattle tract was zero while the maximum was 4. The mean number of lenders across all tracts was .38.

Ten variables were constructed from the 2000 Census to reflect critical neighborhood differences according to social disorganization theory: *percent secondary sector low-wage jobs* (percent of total employed civilian population age 16 and over employed in the six occupations with the lowest mean incomes[5]), *jobless rate*, (percent of civilian labor force age 16-64 who are unemployed or not in the labor force), *percent professionals and managers* (percent of employed civilian population age 16 and over in management, professional, and related occupations), *percent high school graduates* (percent of adults age 25 and over who are at least high school graduates), *poverty rate* (percent of the population for whom poverty status is determined whose income in 1999 was below the poverty level), *percent black* (percent of the total population that is non-Hispanic black), *percent young males* (percent of the total population who are males between the ages of 15 and 24), *residential instability index* (index comprised of percent renters, or percent of occupied housing units that are renter occupied, and percent movers, or percent of population ages 5 and over who lived in a different house in 1995[6]), *percent female-headed households* (percent of households that are female-headed with no husband), and *population*

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unique areas without corresponding census data. Tract 53 is excluded because it encompasses the University of Washington campus and tracts 83 and 85 are excluded because they encompass the University's medical complex.

[5] The occupations include health care support, food preparation and serving related occupations, building and grounds cleaning and maintenance, personal care and service, farming, fishing, and forestry, and material moving. The mean wages were derived from 2000 census data available in the Integrated Public Use Microdata Series (http://www.ipums.org).

[6] The index represents the average of the standardized scores of these two variables.

(tract population).[7] The social disorganization literature has demonstrated these characteristics are related to community crime rates in a variety of cities throughout the U.S. (Krivo and Peterson 1996; Kubrin 2000; Morenoff et al. 2001; Warner and Rountree 1997).

An important variable that classifies tracts as within or not within the Seattle Central Business District (CBD) is included in the analyses because few and atypical residents live in CBD tracts. In Seattle today, CBD residents tend to be urban professionals with high incomes or people who are poor and homeless. Controlling for whether tracts are inside or outside the CBD minimizes the likelihood that the unique characteristics of this area will distort the results (Crutchfield 1989).

Previous community-level studies have had to address problems of multicollinearity among the independent variables. To diagnose potential collinearity, we examined variance inflation factor (VIF) scores, which confirmed the high collinearity between many of the disadvantage-related variables. Using these diagnostics and previous research as a guide (e.g., Sampson and Raudenbush 1999:621), we performed principal components factor analysis with varimax rotation. Not surprisingly, the results suggest the disadvantage-related variables all load on a single index, which we label *Neighborhood Disadvantage*. The following variables encompass our neighborhood disadvantage index (factor loadings in parenthesis): percent secondary sector low-wage jobs (.94), jobless rate (.87), percent professionals and managers (-.86), percent high school graduates (-.93), poverty rate (.80), and percent black (.71). The factor has an eigenvalue of 4.39 and explains 73 percent of the variance. In the analyses, the disadvantage index is used along with the instability index, young male rate, rate of female-

[7] All Census data used in the study were compiled by Ruth D. Peterson and Lauren J. Krivo (2006) as part of the National Neighborhood Crime Study (NNCS). The NNCS contains information on the Federal Bureau of Investigation's (FBI) Index crimes, and socio-demographic characteristics for census tracts in a representative sample of large U.S. cities for 2000.

headed households, total population, central business district, and our payday lending measure to predict Seattle neighborhood crime rates.[8]

Dependent Variables

Data used to compute violent and property crime rates at the census tract level come from Seattle Police Department annual reports. Following common practice, multiple year (2006-07) average crime rates (per 1,000 population) were calculated to minimize the impact of annual fluctuations.[9] The violent crime rate sums murder, rape, robbery, and assault rates whereas the property crime rate is calculated as a sum of the burglary, larceny, and auto-theft rates.[10]

Analytic Issues and Strategy

One critical issue in neighborhood research is that of spatial dependence. Crime is not randomly distributed but is spatially concentrated in certain areas in the metropolis. Formally, the presence or absence of this pattern is indicated by the concept of spatial autocorrelation, or the co-incidence of similarity in value with similarity in location (Anselin et al 2000:14). When high values in a location are associated with high values at nearby locations, or low values with low values for neighbors, positive spatial autocorrelation or spatial clustering occurs. In analyses using spatial data, such as in the current study, one must attend to potential autocorrelation because ignoring spatial dependence in the model may lead to false indications of significance, biased parameter estimates, and misleading suggestions of fit (Messner et al. 2001:427).

In the current study, we address potential spatial dependence by mapping the residuals from our regression analyses and running a series of diagnostic tests to check for problematic

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[8] Careful examination of collinearity diagnostics revealed no multicollinearity problems in the parameter estimates presented below (maximum VIF was 2.5).
[9] Crime data by census tract for 2008 through the present have not yet been publically released.

levels of spatial autocorrelation. We used several variants of the Moran's I test and several software packages, including GeoDA, SPSS, ArcMap 9.3 and s3 (Mathematica).

A second critical issue has to do with the causal ordering of the payday lending-crime relationship. We argue the presence of payday lenders in an area affects its crime rate. However, a case could be made that the relationship also works in the opposite direction—that is, crime could affect where payday lenders set up shop (i.e., a bidirectional relationship). Although in the present study we are fundamentally interested in how the presence of payday lending affects neighborhood crime rates rather than the reverse, the potential for nonrecursive effects means that we must account for the fact that payday lenders may be an endogenous, rather than exogenous, regressor in our analyses. As we discuss below, we do this by implementing a commonly used approach to modeling endogeneity in social relationships.

Given the issues just raised and our focus on investigating the independent relationship between payday lending and neighborhood crime rates, after providing some descriptive statistics on the payday lending-crime relationship, our multivariate analysis begins with the estimation of a series of ordinary least squares (OLS) regression analyses in which the effects of payday lending on crime are examined. In the first model, we assess whether payday lending and crime rates are associated using a baseline model where only payday lending is included. In the second model, we introduce into the analysis the standard social disorganization neighborhood crime correlates (e.g., neighborhood disadvantage, residential instability, etc.) to determine if any payday lending effect withstands these controls.

In the third model, we allow for the possibility that our payday lending measure is endogenous, by estimating an instrumental variables regression via the two-stage least squares

[10] Histograms and descriptive statistics indicate that several of the variables were skewed and needed to be logged in the analyses including the young male rate, the payday lender rate, and the violent and property crime rates.

(2SLS) estimator. To implement the instrumental variable model, we require an instrument that is highly correlated with our measure of payday lenders but is uncorrelated with the error terms from the payday lending-crime equations. We instrument payday lender rates with a measure of the prevalence of FDIC banking institutions (i.e., the natural log of banks per 1,000 population). Our justification for this instrument is that like payday lending institutions, FDIC banking institutions serve the financial needs of community residents. As such, both sets of institutions should be correlated to some degree across census tracts within the city. At the same time, while payday lending may be endogenous to crime (i.e., crime may affect payday lending) we see little reason to expect that FDIC banking institutions are causally dependent on neighborhood crime rates.

Finally, for each model, we test for evidence of spatial autocorrelation and if needed, we account for spatial effects that may bias our estimates of the direct relationship between payday lending and crime. For all sets of analyses, we examine both violent and property crime rates in Seattle neighborhoods.

Findings

Descriptive Statistics

A preliminary view of descriptive statistics suggests a positive association between payday lending and crime. Means, standard deviations, and correlations for all variables are presented in Table 1. The average count of payday lenders across Seattle neighborhoods is .38; the corresponding rate is 10 per 1,000 persons. Consistent with crime patterns throughout the United States, property offenses comprised the majority of reported crimes in Seattle in 2006-07. The average rates for property and violent crime, respectively, were roughly 74 and 8 per 1,000 population. As expected, the explanatory variables, and particularly neighborhood disadvantage, have positive relationships with crime rates. More importantly, payday lending is significantly positively associated with both violent ($r = .48$) and property crime ($r = .56$). Thus, tracts with higher scores on the payday-lenders measure have higher violent and property-crime rates than tracts with lower payday lender scores. These correlations suggest initial support for a payday lending-crime relationship.

TABLE 1 ABOUT HERE

The bivariate relationship between payday lending and crime can be visually illustrated. Figure 1 plots the distribution of payday lenders and violent crime rates in Seattle neighborhoods. The map in Figure 1 clearly displays the strong bivariate relationship between payday lending and violent crime. In the downtown and inner-city areas where payday lenders are more numerous (as indicated by x's on the map), the violent crime rate is also highest (as indicated by the darkest shading on the map). The safest neighborhoods in Seattle have no payday lenders in them. The map also shows moderate violent crime rates in areas with lower densities of payday lending. Clearly, payday lenders have become a barometer of violent crime in Seattle. Where you see payday lenders, you are also more likely to witness violent crime. Results for the distribution of payday lenders and property crime rates, although not presented, mirror closely those for violent crime rates. At issue, however, is whether the significant positive relationship between payday lending and crime will remain after controlling for other community characteristics known to be associated with crime. To determine this, we turn to the regression results.

FIGURE 1 ABOUT HERE

Regression Results

Findings from the regression analyses are generally consistent with what the descriptive statistics indicated. Tables 2 and 3 present the regression results for violent and property crime rates, respectively. These tables contain results from the series of three regression models, outlined earlier. For both tables, the first column reports a baseline OLS regression model in which violent or property crime rates are predicted only by the payday lending variable. In the second column of each table, we expand on that initial model by adding measures that reflect social disorganization theory. In the third column we present results from a model that accounts for the potential endogeneity of payday lenders, through an instrumental variables estimator. Finally, we calculate the level of spatial autocorrelation in each of the prior models. Consistent with our objectives, this model-building strategy allows us to gauge the extent to which the observed relationship between payday lending and violent and property crime remains after controlling for other community characteristics known to be associated with crime.

TABLES 2 and 3 ABOUT HERE

<u>Baseline Model</u>

In the first model of Table 2 we find evidence, not surprisingly, of a statistically significant positive relationship between payday lending and violent crime. Also not surprisingly, we find evidence of a statistically significant positive relationship between payday lending and property crime, as indicated in the first model of Table 3. In essence, as the presence of payday lenders in Seattle neighborhoods increases, so do the violent and property crime rates.

<u>Social Disorganization Model</u>

In the second model, we introduce several measures representing social disorganization theory. Recall this theory suggests that community characteristics such as disadvantage, residential instability, female-headed households, and the presence of young males in the area are positively associated with violent and property crime rates in neighborhoods. In line with the theory, regression results show that neighborhood disadvantage, residential instability and female-headed households are all significantly positively associated with violent crime rates. Likewise, disadvantage and residential instability are significantly positively associated with property crime rates. Moreover, whether the census tract is located in the Central Business District also matters for violent and property crime rates. Our CBD variable is significant and positive in both models. Most important, however, is that the inclusion of the social disorganization variables does not eliminate the effect of payday lending on crime rates. Although for violent and property crime the standardized coefficients for payday lending are reduced (from .482 in model 1 to .248 in model 2 and from .565 in model 1 to .289 in model 2, respectively) payday lending remains a significant predictor in both models.

Using variants of the Moran's I test and several software packages, we measured the potential effects of spatial autocorrelation within the OLS social disorganization model. We found that the effect of spatial autocorrelation was minimal in both analyses of violent and property crime, falling well below the threshold that might raise concern (see, e.g., Parker and Asencio 2009:208).

Table 4 reports the results of these tests, using a minimum threshold distance of 2,500 meters and first order contiguity models. As shown in the table, the Moran's I scores, which are similar to a Pearson's r score, are very low and in some instances slightly negative. The lack of spatially autocorrelated data, though typically a danger in most cities, appears to be minimal in

Seattle thanks, in part, to its unusual physical geography. Unlike many cities, Seattle has numerous natural barriers (e.g., bodies of water, hills, etc.) and manmade barriers (e.g., bridges, freeways, etc.) which appear to inhibit interaction. The map in Figure 1 helps make this clear. This finding is consistent with other studies that have examined spatial autocorrelation and neighborhood crime rates in Seattle (e.g., Kubrin 2000) and accounts for why previous researchers have not had to directly address autocorrelation in their analyses of Seattle neighborhoods (e.g., Crutchfield et al. 2006; Rountree et al. 1994; Warner and Rountree 1997).

Endogeneity Model

The third model in our investigation examines the possibility that the measure of payday lenders is endogenous, leading to biased OLS estimates of its relationship with violent and property crime rates. To estimate this model, we utilize a two-staged least squares estimator. In the first stage analysis, the prevalence of payday lenders is instrumented by one "excluded" instrument, the natural logarithm of FDIC banks per 1,000 persons, with the social disorganization variables specified as "included" instruments. The full results of this first-stage analysis are displayed in Appendix A. Measures of instrument relevance are reported at the bottom of this appendix. In brief, the first-stage regression suggests that the FDIC banks measure is a relevant instrument, as indicated by a fairly substantial partial r-squared for the excluded instrument and an associated F statistic of 33 (generally speaking, a value greater than 10 is taken as evidence of a relevant instrument, see Staiger and Stock 1997).

In light of evidence supporting the utility of the instrumental variable we have selected, we now turn our attention to the second-stage regression results, reported as model 3 in Tables 2 and 3. Here our interest centers on whether the criminogenic effect of payday lenders—as instrumented by FDIC banks—remains in evidence. Turning first to the results for violent crime, the findings continue to indicate that the prevalence of payday lending institutions has a significant positive relationship with violent crime rates. Indeed, the results of the IV analysis mimic fairly closely the substantive results that were suggested by the OLS analysis, both for the measure of payday lending as well as for the social disorganization variables. Moreover, a closer inspection of the coefficients in models 2 and 3 suggests that differences are not especially great. Intuitively, this similarity suggests that payday lenders may not be endogenous to violent crime. The "Durbin-Wu-Hausman (D-W-H) endogeneity test" reported at the bottom of Table 2 supports that idea. In this case, the test is not significant, which suggests that little is changed by specifying payday lenders as endogenous to violent crime. Across model specifications, the evidence is quite consistent in indicating that the measure of payday lending is predictive of violent crime rates, net of controls for social disorganization theory variables.

Looking next at the results for property crime, reported in the third model of Table 3, several findings are noteworthy. In big picture substantive terms, the results of the instrumental variables analysis differ little from OLS results. As was the case before, measures of payday lenders, neighborhood disadvantage, residential instability, population size and location within the CBD are all significantly related to property crime rates in expected ways. Thus, the substantive concerns that are most central to the current study seem unaffected by the potential for reciprocal linkages between payday lending and crime. On the other hand, the differences in the magnitude of the coefficients in the OLS and IV analyses are more prominent for property crime. For instance, the estimated effect of payday lending is roughly twice as large in the IV analysis compared to the OLS analysis. Given this difference, it is not surprising that the Durbin-Wu_Hausman test turns up statistically significant in Table 3. In essence, this test suggests that there are systematic differences in the coefficients for the OLS and 2SLS-IV models, which is consistent with the idea that the relationship between payday lender prevalence and property crime rates may not be unidirectional. Despite this result, our analyses suggest little reason to doubt that the relative prevalence of payday lender institutions has an effect on property crime rates, net of social disorganization variables.[11]

To guard against potential spatial biases in the endogeneity models, we once again measured the level of spatial autocorrelation using a variety tests. We again found no troubling spatial biases in our analysis of violent or property crime rates. Results of our tests for spatial autocorrelation in these models using Moran's I are listed in Table 4.

TABLE 4 ABOUT HERE

In sum, the results of our analyses reveal that payday lending and crime, both violent and property, are significantly related. This relationship holds even after controlling for a host of factors typically associated with neighborhood crime rates. Moreover, the payday lending-crime relationship also holds after we utilize an instrumental variable estimator to deal with possible endogeneity between our measure of payday lending and crime rates and after examining the data for evidence of spatial autocorrelation.

Crime is just one community cost that, we now can be reasonably certain, is associated with payday lending. In the conclusion below, we briefly note other potential costs. We end with a discussion of policy implications of our findings and recommendations for future research.

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[11] On the advice of a reviewer, we replicated the models substituting in the individual components of the disadvantage index to see whether the effects of payday lending remained. In all supplemental analyses, payday lending remained a significant predictor of violent and property crime rates. Results of those supplemental analyses are available on request.

Conclusion

Payday lenders in Seattle are concentrated in the very same communities where crime rates are highest. More important, the association between payday lending and violent and property crime remains statistically significant even after controlling on a range of factors traditionally associated with crime. And spatial autocorrelation and the potential impact of crime on payday lending also failed to explain away the effect of payday lending on crime. The substantial costs that customers pay for utilizing payday lenders have long been documented. Our findings indicate there are broader community costs that *all* residents pay, whether they are customers or not, if they reside in neighborhoods with a concentration of payday lenders. These costs suggest a number of policy implications as well as directions for future research.

Policy Implications

A critical public policy challenge is to preserve access to small consumer loans on an equitable basis, and to do so in a way that does not enhance the danger to those in the community where these services are being provided. This is a challenge not just for financial service providers and regulators, law enforcement authorities, or community development officials. Coordinated efforts should be launched to successfully meet these objectives. One approach would be to cap the interest rate that payday lenders are allowed to charge at 36 percent as several states have done and as Congress did for loans to members of the military and their families. (Credit cards, though not ideal for all consumers, currently offer cash advances for far less than 36% APR). While this would eliminate many of the abusive practices often associated with payday lending, it would effectively put many payday lenders out of business. This raises the question of whether other financial institutions could step in and provide small consumer loans. One credit union has found a way to do so profitably, and with a high-risk pool of borrowers.

In 2001 the North Carolina-State Employee's Credit Union (SECU) created the Salary Advance Loan (SALO) product that helps employees make it from paycheck to paycheck while still building savings. Members who have their paycheck automatically deposited can request salary advances up to $500. The advance is automatically repaid the next payday. The annual percentage rate is 12 percent. Typical SALO borrowers have an annual income of less than $25,000 with account balances of under $150. Two-thirds take out advances every month. SECU has earned a net income of $1.5 million on a loan volume of $400 million with loan charge-offs of 0.27 percent. As Michael A. Stegman concluded, this experience "shows that large institutions can market more affordable payday loan products to high-risk customers at interest rates that are a small fraction of prevailing payday loan rates" (Stegman 2007:183). Credit Unions around the country offer similar loans, generally with the proviso that the borrower also build a "rainy-day" fund with the credit provider.

Federal banking regulators could encourage larger financial institutions to offer similar services by giving credit to those lenders in their Community Reinvestment Act (CRA) examinations and evaluations. Under the CRA, federally regulated depository institutions are required to affirmatively ascertain and be responsive to the credit needs of their entire service areas, including low- and moderate-income communities. Regulators take lenders' CRA records into account when considering applications for mergers, acquisitions, and other changes in bank lending practices (Immergluck 2004). Providing CRA credit for offering small consumer loans on equitable terms would encourage more large institutions to do so.

State and local governments could enact zoning laws that limit the number of new payday lenders. Today 81 cities, 5 counties, and 19 states have enacted local ordinances limiting the location and density of alternative financial institutions like payday lenders, check cashers, and pawn shops. For example, in 2008 St. Louis passed an ordinance prohibiting check cashers and short-term loan operators from opening within a mile of an existing store and within 500 feet of a residence, elementary school, or secondary school (Standaert 2009:432). Similar rules could be targeted explicitly to payday lenders. Such zoning laws could reduce the extent to which neighborhoods become stigmatized due to the concentration of fringe banking institutions and lessen the extent of social disorganization in those areas.

A more direct approach would be to establish a suitability standard prohibiting payday lenders from providing multiple loans to borrowers or offering any other terms and conditions of such loans that are designed to entrap borrowers in a cycle of debt. Guidelines by the Federal Deposit Insurance Company that prohibit regulated banks working with third parties, like payday lenders, from giving loans to borrowers with recent outstanding payday loan debts, could be extended to all payday lenders.

An immediate concern is the safety of those in neighborhoods where payday lenders are concentrated. Local law enforcement authorities should carefully assess levels of criminal activity in those areas and consider providing additional service at appropriate times. Not only would employees and customers of payday lenders benefit, but residents of the surrounding neighborhoods would enjoy safer streets as well. In turn, this might attract other businesses and more residents to the area, stimulating broader economic and community development of many currently distressed areas. In essence, by reducing the social disorganization of such neighborhoods, a virtuous cycle could be launched that would bring lower crime rates and many associated benefits.

Research Implications

There is a growing body of research on the business operations of payday lenders, their customer base, and the linkages to other financial services. Not so widely researched are potential neighborhood costs. As shown from this study, a spike in neighborhood crime rates is one such cost. But there may be others. Most potentially problematic might be the impact on local property values. If a concentration of payday lenders reduced property values (and it is difficult to imagine it would increase values) this would mean that the value of neighborhood homes and other properties along with the equity and wealth of property owners would be depressed. In turn, property tax revenues would decline requiring either a reduction in critical public services (e.g. schools, police, fire protection) or higher taxes for local residents and businesses. It would be informative to know if payday lenders have such an impact and, if so, to quantify that impact.

It also stands to reason that in communities with significant concentrations of payday lenders, capital loss in the form of the so-called multiplier leakage occurs. In this scenario, capital crucial to local economic development efforts, or for simple circulation within the local economy, is siphoned off by payday lenders, the vast majority of which are owned by interests far distant from branch operations. Compounding this, of course, is the fact that payday lenders are most common in neighborhoods that already suffer from various types of disinvestment. Estimating the flight of capital from such communities due to the activity of payday lenders would provide valuable information for planners and regulators as well as the research community.

An obvious extension of this research would be case studies of additional cities. We suspect our findings are not unique to Seattle. But there may be variations associated with the size, demography, regional location, industrial structure, and other city characteristics that affect the linkage between payday lending and crime. Unfortunately, uneven crime data and even poorer data on payday lenders constitute a key challenge.

How the payday lending-neighborhood crime link varies over time is also unknown. Payday lenders suddenly appeared on the map of virtually all major cities within the past 20 years. Depending on the trajectory of various political initiatives, their numbers could continue to grow or decline with equal speed. In the current study, we offer a snapshot. Longitudinal work would better flesh out this connection.

A Final Word

Access to a wide range of financial services on fair and equitable terms has become a major public policy issue and the topic of much social science research in recent years. Payday lenders constitute part of the growing web of fringe bankers that have been concentrated in low-income and disproportionately minority communities though they have begun to expand into working and middle class communities as well. The costs to many individual borrowers and families has long been evident, often quantified with some precision. While not understood with the same level of specificity, the broader neighborhood costs are becoming recognized as facts of life in the nation's metropolitan regions. The link between payday lending and neighborhood crime should, in fact, come as no surprise. How we choose to respond to that connection, if we choose to respond at all, remains to be determined.

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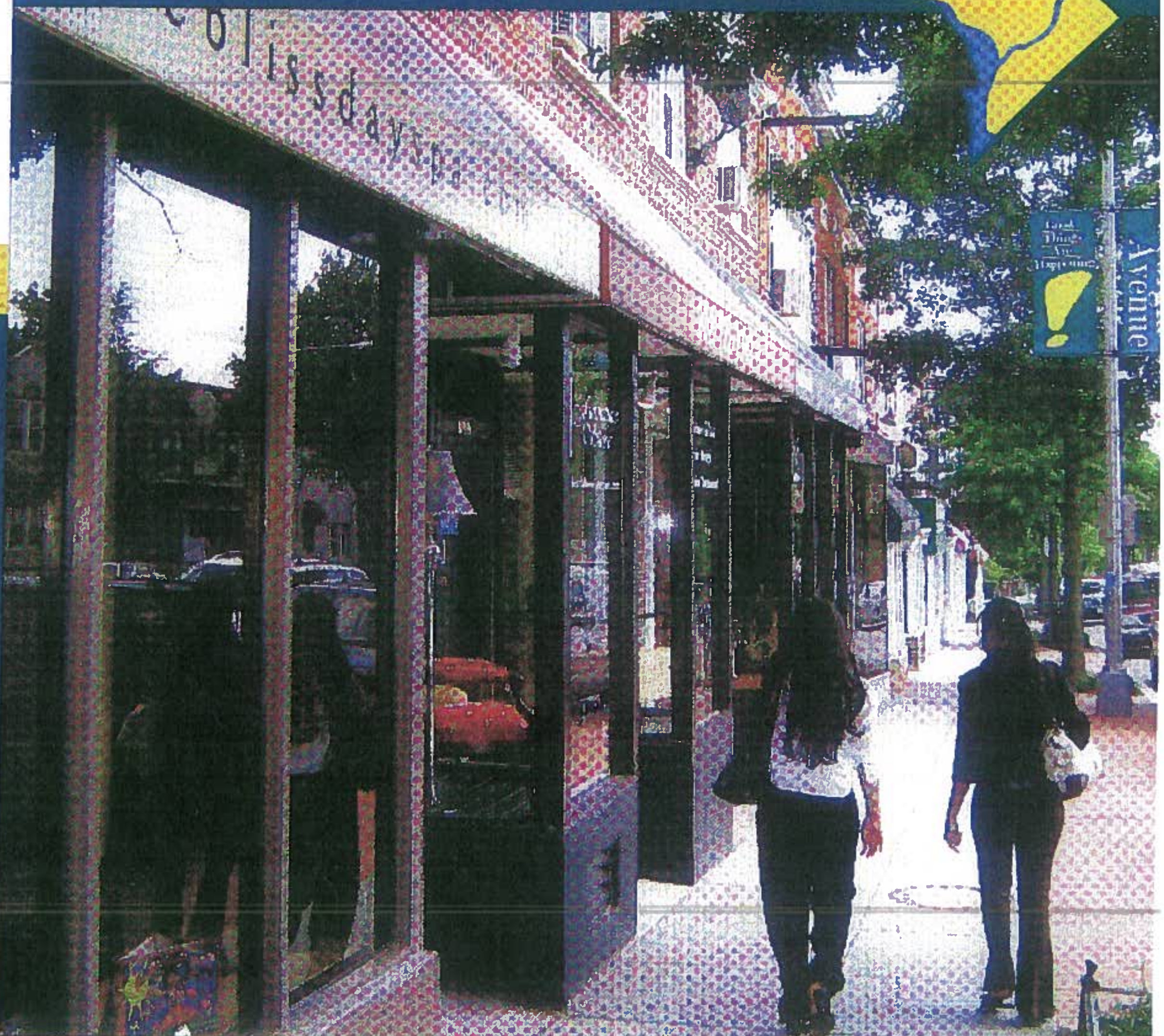
2008 NEIGHBORHOOD PROFILES

GATEWAY GEORGIA AVENUE



Gateway Georgia Avenue features 33 new storefronts, landscaped public spaces, red brick sidewalks and globe lampposts

WHY GATEWAY GEORGIA AVENUE

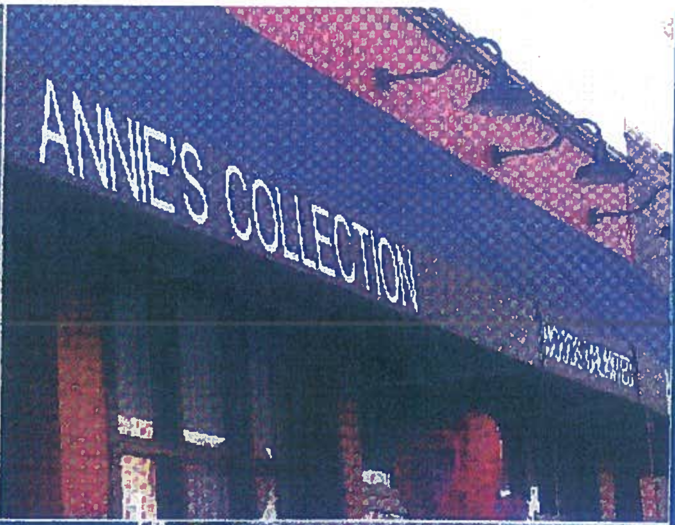
- Because residents near Gateway Georgia Avenue have a median household income of more than $72,000
- The Walter Reed U.S. Army Medical Center employs 5,000 workers and serves 3,000 out-patient visitors daily
- The Georgia Avenue Storefront Improvement Program provides funds to assist local business owners in order to enhance their commercial/retail properties
- Attractions include historic Fort Stevens—a unit of the National Park System—and the National Museum of Health & Medicine at Walter Reed
- This stretch of Georgia Avenue is a few blocks from Rock Creek Park and its 8,673 acres of recreational opportunities & public grounds
- Business assistance & commercial property improvement services provided by Gateway Georgia Avenue Main Street

A bustling community of independently owned boutiques, restaurants and professional services, Gateway Georgia Avenue welcomes over 32,000 commuters by car every day and serves as a hub linking several nearby neighborhoods.

Located on a main commuter route, Gateway Georgia Avenue is truly a "gateway" to the nation's capital. The area's attractively maintained streetscape includes 33 new storefronts, landscaped public spaces, red brick sidewalks and globe lampposts.

Anchored by world-renowned Walter Reed Army Medical Center on the southern end to the District/Maryland border on the northern end, this commercial district caters to the surrounding middle-income DC residential neighborhoods of Colonial Village, Shepherd Park and Takoma. Gateway's customer base includes nearby Montgomery College and downtown Silver Spring, Maryland's businesses and residents.

Designated by the District government as both a DC Main Street corridor and a Great Streets corridor, Gateway Georgia Avenue leverages new public investment to foster mixed-use development, infrastructure improvements and public art.



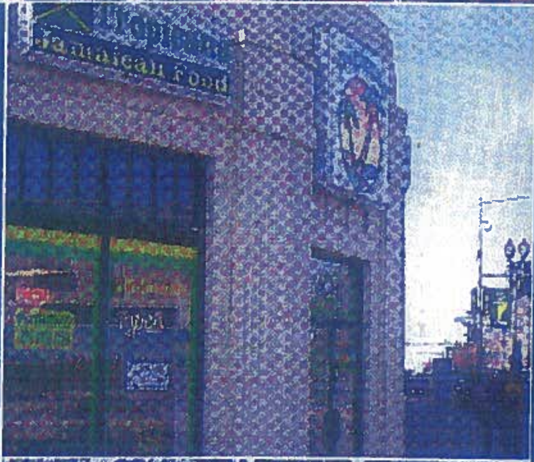
2,256
# of Employees

395
# of Businesses

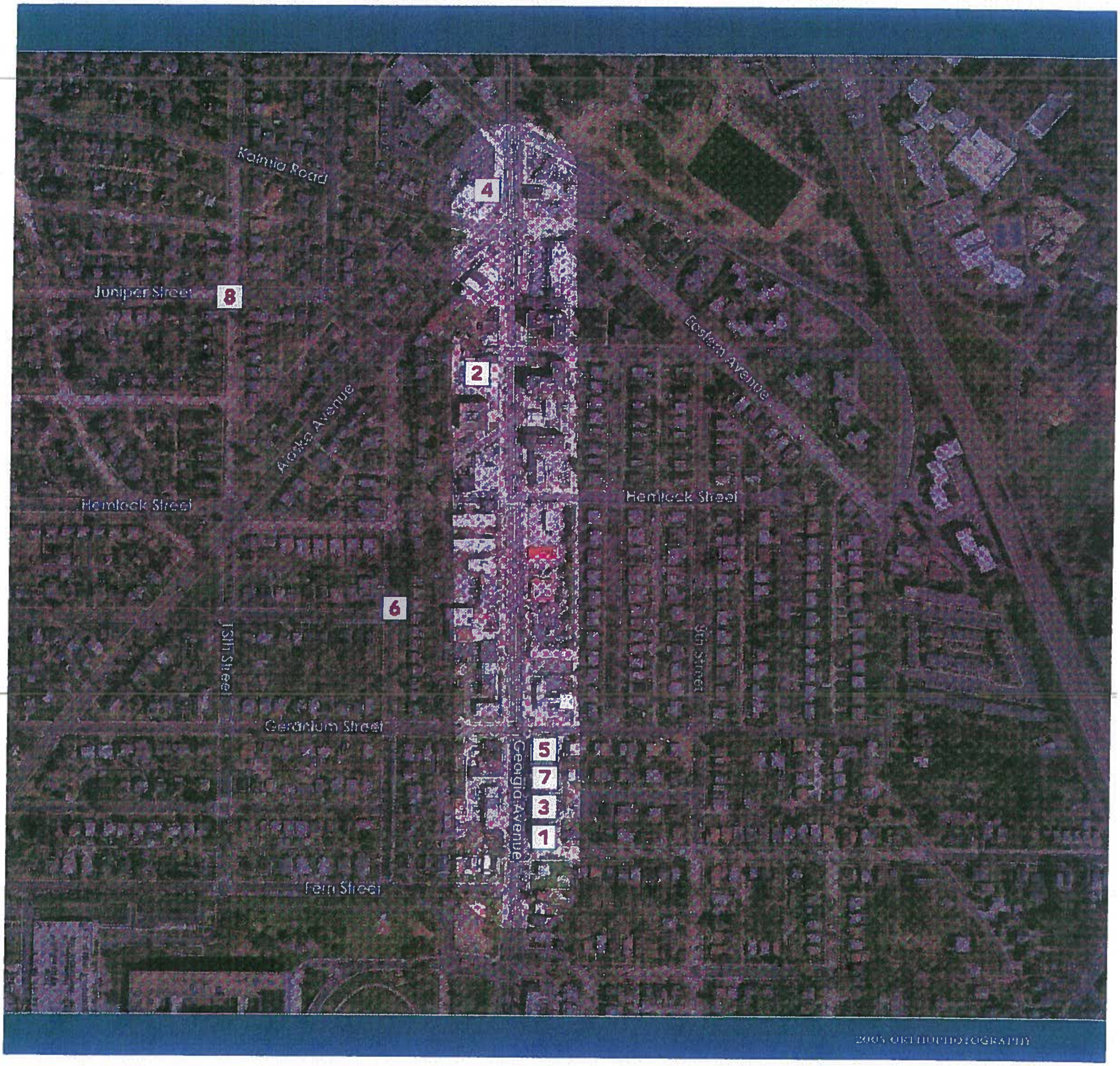
34
# of Retail Stores

$34.5
Est. Retail Sales Volume (in millions)

[illegible]



GATEWAY GEORGIA AVENUE



GATEWAY GEORGIA AVENUE *PICTURES & LOCATIONS*

1. Jinja Boutique
2. Annie's Collection
3. D'Carlo Upholstery
4. Tropicana
5. El Tamarindo
6. Residential
7. Georgia Avenue Retail
8. Residential

Gateway Georgia Avenue

Population	0-0.5 mi	0-1 mi	0-3 mi
Population	5,521	25,229	236,604
Male (%)	47.2	47.1	48.0
Female (%)	52.8	52.9	52.0

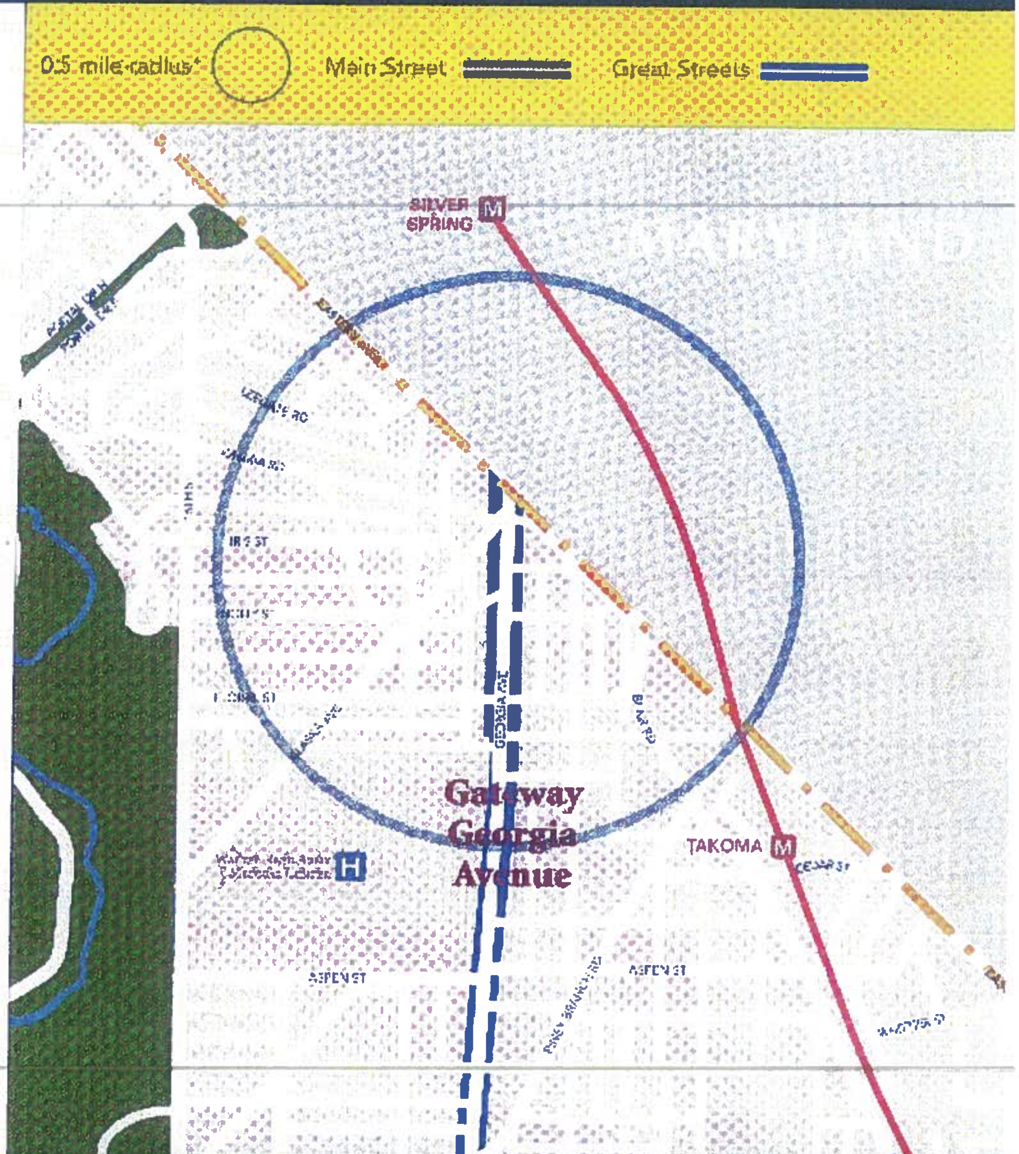
Households			
Households	2,267	11,012	92,284
Average Household Size	2.4	2.2	2.5
Owner-occupied (%)	62.4	44.5	51.9

Income			
Average Household	$96,699	$87,618	$90,762
Median Household	$72,219	$60,730	$60,537
Median HH Disposable	$53,454	$47,585	$46,421
Median Net Worth	$187,897	$129,626	$131,707

Consumer Expenditures ($000)			
Apparel	$7,778	$34,423	$298,969
Computers & Accessories	$759	$3,431	$29,388
Entertainment & Recreation	$11,217	$44,596	$387,062
Pets	$1,268	$5,490	$47,634
Television, Radio & Sound	$3,364	$15,140	$131,206
Food at Home	$14,527	$64,971	$567,317
Home Improvement	$8,331	$32,773	$288,280
Household Furnishings	$6,604	$28,719	$249,423
Meals at Restaurants	$9,149	$41,271	$357,062
Personal Care	$1,352	$6,151	$53,306
Vehicle Maint. & Repair	$3,083	$13,842	$119,611
Average Spent per HH	$32.9	$30.0	$31.2

Age (%)			
Age 0–4	5.0	4.8	6.2
Age 5–9	6.0	4.8	6.4
Age 10–14	5.9	5.3	6.6
Age 15–24	11.4	12.8	12.3
Age 25–34	11.5	15.6	14.5
Age 35–44	13.6	15.0	15.2
Age 45–54	17.0	16.3	15.0
Age 55–64	13.9	12.6	11.0
Age 65+	15.7	12.8	12.8
Median Age (years)	42.6	39.5	37.7

* Source: ESRI, 2007 Estimates & Projections
Data gathered from the [illegible] block of Georgia Avenue



METRORAIL COUNTS (weekday | weekend)

28,368 | 15,201 12,213 | 9,217

Silver Spring; Takoma

TRAFFIC COUNTS (weekday)

31,900 2,900–9,000

Georgia Avenue; Eastern Avenue

CONTACT

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District of Columbia Main Streets

The DC Main Streets program, in the Department of Small and Local Business Development, fosters retail investment in DC by providing services and funding to help communities retain and recruit businesses, improve commercial properties and streetscapes and attract consumers. For more information, please visit www.restore.dc.gov or call 202.727.3900.

GREAT STREETS AVENUES of OPPORTUNITY

The Great Streets Initiative is a multiyear, multiple agency effort to transform underinvested corridors into thriving and inviting neighborhood centers. Multiple millions of dollars are being spent to leverage considerable new private and not-for-profit investments along nine corridors. For more information, visit www.greatstreetsdc.com.

Exhibit H

Pawnshops and Neighborhood Crime An Extrapolation from “Does Fringe Banking Exacerbate Crime Rates? Social Disorganization and the Ecology of Payday Lending” by Dr. Charis E. Kubrin and others (March 22, 2010)

by

Charis E. Kubrin, Ph.D.

April 26, 2010

With colleagues Gregory D. Squires, Steven M. Graves, and Graham C. Ousey, I have conducted a study that examines the relationship between payday lenders and neighborhood crime rates (see attached document, "Does Fringe-Banking Exacerbate Neighborhood Crime Rates? Social Disorganization and the Ecology of Payday Lending"). The study found that neighborhoods with greater concentrations of payday lenders have higher violent and property crime rates. We found this relationship remains even after controlling on a range of factors traditionally associated with crime and after addressing important methodological challenges in testing the payday lending-crime relationship. Although our study does not examine the presence of pawnshops directly, I argue the conclusion can be fairly extrapolated that pawnshops cause an increase in neighborhood crime rates based on the findings of our study.

Local institutions play a key role in shaping neighborhood crime rates. This occurs in large part because such institutions structure the daily interaction patterns of residents, affect the ability of communities to exercise social control (e.g., prevent crime), and influence available routes to valued goals such as economic or community development. While some types of local institutions are beneficial to communities (e.g., libraries, recreational facilities, etc.), others can be harmful, especially in terms of promoting crime. In our study, we identify payday lenders as one local institution that is likely to cause crime. At a minimum, the availability of cash in distressed neighborhoods at readily identifiable businesses, open during evening and weekend hours, suggests a link between crime and payday lending. Residents who use payday lenders leave these establishments often with great sums of cash in their wallets, a fact likely not overlooked by potential criminals. Moreover, a concentration of payday lenders may constitute a visible sign of neighborhood decline and signal to potential criminals that informal social control is weak at best.

We also argue that an increase in crime could be attributable to the manner in which payday lenders may lubricate the cash-only drug trade. In places where cash is available on a moment's notice to anyone with a job or government check, those wanting to fuel an addiction, or deviant lifestyle, need not wait until payday with ample payday loan opportunities. And persons who find themselves in an ever descending debt spiral, perhaps pressured by the threats of debt collectors, would also seem more likely to suffer from stress, anxiety, fear and other emotional difficulties that manifest themselves in violence, particularly against family, co-workers, friends, and neighbors. In short, we list several reasons why the presence of payday lenders in neighborhoods may cause increased violent and property crime rates in those neighborhoods.

To examine whether this is the case, we performed a series of regression analyses using data on the location of payday lenders in conjunction with census and crime data for neighborhoods in Seattle, Washington. In the first set of analyses, we assessed whether payday lending and crime were related using a baseline model where only payday lending was included. In the second set of analyses, we introduced standard crime correlates (e.g., poverty, unemployment, presence of young males) to determine if any payday lending effect on crime withstands these controls. In the third set of analyses, we performed an instrumental variable analysis to help determine the direction of causality in the payday lending-crime relationship. And finally, for each analysis we accounted for potential spatial effects in order to address spatial biases that may undermine our ability to accurately determine the relationship between payday lending and crime. In short, our analytical approach was sophisticated and comprehensive.

Our key finding is that neighborhoods with greater concentrations of payday lenders have higher violent and property crime rates. This relationship holds even after controlling for a host of factors typically associated with neighborhood crime rates and after properly assessing causality and examining the data for evidence of spatial biases.

We do not limit this finding to just the presence of payday lenders in communities. In the paper, we argue that payday lenders represent one piece of a larger growing "fringe banking industry" (consisting of check-cashers, rent-to-own stores, and pawnshops), which comprises a range of local institutions that can increase crime within communities. For the reasons described above, I argue that the presence of pawnshops in communities is likely associated with heightened violent and property crime rates in those communities, based on the findings of our study.

Exhibit I

Statement Concerning Impact Of Locating A Pawnshop At 7301 Georgia Avenue, N.W. On Value Of Nearby Residential And Commercial Properties

by

Randy Boehm
Vice-President
Gateway-Georgia Avenue Revitalization Corporation

June 21, 2010

Gateway-Georgia Avenue Revitalization Corporation ("GGARC") unequivocally opposes the issuance of a pawnbroker license to Famous Pawn, Inc. for 7301 Georgia Avenue, N.W.

GGARC was formed in 1998 in the District of Columbia as a 501(c)(3) private nonprofit corporation. It grew out of a coalition of neighborhood and business associations known as the Gateway Coalition which consisted of Concerned Neighbors, Inc., Shepherd Park Citizens Association, Plan Takoma and the Colonial Heights Citizens Association. Representatives of these groups have been consistently included on the GGARC Board of Directors. Having been the founder of GGARC, I can say that GGARC's linkage with the community is deep and longstanding.

GGARC's mission is to provide insightful and positive direction to the revitalization of the seriously depressed Gateway Georgia Avenue (i.e., the Georgia Avenue commercial corridor extending from Fern Street, N.W. to Eastern Avenue, N.W.). We have received public funding every year for the past 12½ years from the District of Columbia government to be used towards the payment of the cost of fulfilling our mission. The proposed location for Famous Pawn, Inc.'s pawnshop (7301 Georgia Avenue) is situated inside and at the very beginning of the southern entrance to Gateway Georgia Avenue.

One of GGARC's key strategies toward revitalizing the Georgia Avenue gateway has been to re-image it as a safe, neighborhood-friendly commercial strip. The consensus in the residential community in the late 1990s was that the sidewalks of upper Georgia Avenue were unsafe and uninviting. At that time our commercial service area was characterized by a concentration of low-end liquor vendors, check-cashing operations, open air drug dealing, prostitution, and many marginal business enterprises which were unable or unwilling to keep up the appearance of their properties. Using DC funds, we have made considerable progress in changing the negative image of Gateway Georgia Avenue. We have capitalized on the City's façade improvement program to enhance the appearance of almost fifty commercial properties. We have created tree boxes and flower planters, constructed during community events that brought out the neighborhood residents and potential customers for Gateway businesses. We hired staff to sweep trash from the sidewalks and maintain the tree boxes and flower planters. We worked with police to stem the open-air drug dealing and prostitution. And we strove to recruit businesses to Gateway Georgia Avenue that would be desirable to the residents of upper Northwest Washington.

A pawnshop cuts sharply against the grain of all of our improvement efforts. Over our many years of service, we've learned that changing the image of Gateway Georgia Avenue is a slow, arduous process that requires constant maintenance. We've learned that months after we thought we'd cleaned up the drug dealing, prostitution, or loiterers, the problems would re-emerge. They would re-emerge because while the signs of progress were visible to us in the thick of revitalization, those looking to score drugs, or use our community as a temporary address for prostitution were not aware that the community was becoming less hospitable for them. The image of the Gateway for persons spending five years in prison or a couple years touring the country as a prostitution ring didn't change. And so they would reappear again and again. It became clear to us that we needed constant maintenance on re-imaging the Gateway as a safe, neighborhood-friendly business district.

With years of experience informing our judgment, we are alarmed by the proposed establishment of a pawnshop on Gateway Georgia Avenue as it will undermine the substantial investment the District of Columbia has made in reimaging the Gateway. We are alarmed that a pawnshop in the Gateway will signal to persons outside of our community that the Gateway has reverted to the semi-lawless atmosphere that we confronted in the 1990s. We are alarmed that it will signal to the middle-class neighbors whom we are trying to attract to Georgia Avenue, that the old concerns about feeling unsafe over who they may brush up against on Georgia Avenue should discourage them from visiting. And we are alarmed that any discouragement of neighborhood visitation to Georgia Avenue could have a destabilizing effect on the neighborhood-friendly businesses that have located in the area in recent years as well as other businesses in the area.

We believe there is simply too much at risk, in terms of quality of life, in terms of public funds already invested in revitalizing the area, in terms of the viability of small businesses struggling to make a go of it in the Gateway and in terms of residential and commercial property values to make the issuance of a pawnbrokers license to Famous Pawn an affirmative action by the City.

We will pledge to work with the landlord of the 7301 Georgia Avenue property to find a suitable tenant to pay a fair rent and provide a more positive presence for our community. But we strenuously request the City not issue a pawnbroker's license to Famous Pawn for a pawnshop in our upper Georgia Avenue service area.

Randy Boehm

Randy Boehm
Vice-President
Gateway Georgia Avenue
Revitalization Corporation

Exhibit J

HOUSINGCOMPLEX

Pawnbroker and Payday Lender Dumping Cash Into Council, Mayoral Races

Posted by **Lydia DePillis** on **Jun. 11, 2010 at 08:48 am**

Campaign finance reports due last night show that First Cash Financial Services, which is fighting legislation that would cap fees and interest rates on ~~payday lenders~~ check cashers and pawnbrokers in the District, has made some strategic investments in this year's political races: At least $8,000 to sitting councilmembers, all in the ten days after a June 2 hearing on Councilmember **Muriel Bowser**'s proposed bill.

First Cash doled out $500 to Ward 1 Councilmember **Jim Graham**, $1500 to **Kwame Brown**'s race for chairman, $1,000 to Councilmember-at-large **David Catania**, and $2,000 to Council Chairman **Vince Gray**.

Rick Wessel, First Cash's CEO, also cut checks to Graham ($500) and Gray ($2,000) as well as Ward 5 Councilmember **Harry Thomas** ($500).

Councilmembers **Tommy Wells** and **Mary Cheh** recieved none of First Cash's largesse, and neither did Mayor **Adrian Fenty**. I haven't managed to get all of the reports out of the Campaign Finance Office's jankety website, but will update when I can. Probably safe to assume that Bowser won't be getting any of First Cash's cash, though. And it wouldn't make sense for First Cash to fund any challengers–the bill will likely come to a vote before they have a chance to take office.

Roderic Woodson, First Cash's attorney from Holland and Knight–and a generous donor himself–told Housing Complex yesterday that his client would shut down its two existing pawnshops in the District if the Council passes Bowser's bill in its current form. Look forward to more on this issue in next week's column!

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